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ABSTRACT

The National Study of Child Care for Low-Income Families, conducted for the Administration for Children and Families in the U.S. Department of Health and Human Services, is a 5-year research effort in 17 states and 25 communities that will provide information on the response of states and communities to the child care needs of low-income families, on the employment and child care choices made by these families, and on the factors that influence those choices. This report is the first in a series that will present study findings, and the first of three that will focus specifically on the issues at the state and community levels. The report's introductory chapter details the legislative context for the study, including the legislative and policy changes produced by welfare reform and the issues raised by those changes. This chapter also provides an overview of the study's objectives, activities and time-frame, and a framework for the report. The second chapter examines the changes and growth in child care expenditures in the study states in the first 3 years of welfare reform and the proportion of funds drawn from federal versus state sources, and from mandatory versus optional sources. Finally, the chapter describes the extent to which child care funds are used to address quality concerns or improve administrative efficiency, as opposed to direct expenditure on child care services. The third chapter focuses on how states are meeting the demand for child care subsidies. The chapter examines changes in the use of subsidies since the passage of welfare reform legislation, the ways in which TANF (Temporary Assistance for Needy Families) policies have influenced the use of subsidies and the strategies states have employed to address the subsidy needs of TANF and non-TANF families. The fourth chapter describes the administration of child care subsidies in states and communities. This chapter also examines the ways in which administrative procedures facilitate or make more difficult families' access to subsidies. The fifth chapter addresses questions about the types of care that states are purchasing with

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child care subsidies and the ways in which states may influence parents' choice of child care arrangement through regulatory policies and other requirements as well as payment rates and procedures. The sixth chapter addresses questions about how the supply of child care has responded to growth in the use of subsidies and what types of care seem to be in short supply. In addition, the chapter examines the strategies states use to distribute quality funds and the extent to which those funds are targeted to the improvement of care for low-income families versus more general improvement. The report's concluding chapter discusses some of the implications of the report's findings. Numerous tables are appended. (HTH)

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National Study of Child Care for Low-Income Families

State and Community Substudy Interim Report

November 2, 2000

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Chapter One: Introduction

The strong US economy provides new employment opportunities for low-income parents, even those with few job skills who may be new to the labor market. For these parents, reliable and affordable child care is an essential support if they are to obtain and hold onto a job. Little is known about how the child care market works for low-income families, how and why they make choices about child care, and how state child care subsidy policies affect those choices. The welfare reform legislation enacted in 1996 brought with it increased investment in child care to serve the needs of both families leaving the welfare rolls and other low-income families, many of whom may never have received cash assistance.

The National Study of Child Care for Low-Income Families, conducted for the Administration for Children and Families in the US Department of Health and Human Services, by Abt Associates Inc. and the National Center for Children in Poverty, is a five-year research effort in 17 states and 25 communities that will provide information on the response of states and communities to the child care needs of low-income families, on the employment and child care choices made by low-income families and on the factors that influence those choices. In addition, the study is focusing on the family child care arrangements of low-income families and the experiences of children in this type of care.

This is the first in a series of reports that will present study findings, and the first of three that will focus specifically on issues at the state and community levels. Later reports will trace change over time in state policies and practices and will provide parents' and providers' perspectives on how these policies and practices affect the local child care market.

The remainder of this chapter describes in more detail the legislative context for the study, including the legislative and policy changes produced by welfare reform and the issues raised by those changes. It provides an overview of the study's objectives, activities and time-frame and a framework for the report.

The second chapter examines the changes and growth in child care expenditures in the study states in the first three years of welfare reform and the proportion of funds drawn from federal vs. state sources, and from mandatory vs. optional sources. Finally, the chapter describes the extent to which child care funds are used to address quality concerns or improve administrative efficiency, as opposed to direct expenditure on child care services.

Chapter Three focuses on how states are meeting the demand for child care subsidies. It examines changes in the use of subsidies since the passage of welfare reform legislation, the ways in which TANF policies have influenced the use of subsidies and the strategies states have employed to address the subsidy needs of TANF and non-TANF families. Chapter Four describes the administration of child care subsidies in states and communities. The chapter examines the ways in which administrative procedures facilitate or make more difficult families' access to subsidies. Chapter Five addresses questions about the types of care that states are purchasing with child care subsidies and the ways in which states may influence parents' choice of child care arrangement through regulatory policies and other requirements as well as payment rates and procedures.

Chapter Six addresses questions about how the supply of child care has responded to growth in the use of subsidies and what types of care seem to be in short supply. In addition, the chapter examines the strategies states use to distribute quality funds and the extent to which those funds are targeted to the improvement of care for low-income families vs. more general improvement. A concluding chapter discusses some of the implications of the report's findings.

Legislative Background

The welfare reform legislation passed in 1996 was the culmination of efforts over several decades to move from a cash entitlement program for poor families with children to a system that substitutes work for welfare. Created in 1935 as part of the Social Security Act, Aid to Families with Dependent Children (AFDC) provided an entitlement to cash benefits for poor families with children whose parents were unable to support them. Initially seen as a benefit for widows with young children, to ensure their ability to stay home to care for their children, over time AFDC became a means of support for increasing numbers of single female heads of households, many divorced or separated from their spouses, others never married. Under this entitlement, assistance was provided to all eligible individuals, with the federal government paying the major portion of the costs.

While work incentives were introduced for the first time in 1968, the first major change in welfare policy came with passage of the Family Support Act in 1988, which emphasized moving welfare recipients into jobs while providing increased funding for the education and training that would make the move from welfare to work possible. The legislation created a new program, JOBS (Job Opportunities and Basic Skills) in which some proportion of welfare recipients would be required to participate, set gradually increasing participation goals for states and allowed states to sanction non-participants. Also under this legislation, and for the first time, parents receiving welfare and working or enrolled in education or training programs were **guaranteed** child care assistance if they were in an approved activity. They were also guaranteed one year of child care subsidies if they left welfare for work-related reasons, a program called Transitional Child Care, or TCC. Although many states had their own child care subsidy programs, the majority of federal funds for child care assistance prior to 1988 came from the Title XX Social Services Block grant, the major source of child care subsidies until the passage of this legislation.

Shortly after the implementation of additions to the child care subsidy programs associated with the Family Support Act, Congress created the Child Care and Development Block Grant (CCDBG) discretionary program, and the At-Risk Child Care Program, a capped entitlement program. Thus, although efforts were being made to consolidate the many child care funding streams, for several years prior to the passage of the PRWORA in 1996, states had to deal with four federally- funded child care programs (AFDC child care, TCC, At-Risk Child Care, and the Child Care and Development Block Grant), each with a unique mix of target populations, funding mechanisms, reporting requirements, and regulations.

Providers who received CCDBG, even those who were exempt from state regulation, were required to meet a minimal set of health and safety standards. Prior to creation of the CCDBG, providers receiving child care dollars from Title XX or other federal sources, including the Family Support Act programs, were required to meet only the requirements of their particular state or community; no additional federal requirements were imposed on providers.

During the 1990s, the federal government introduced a system in which waivers were granted to states to allow them to test individual approaches to welfare reform. This was an extensive effort involving 43 states and many different waivers. Before most of these experiments had been concluded, there began efforts by both political parties to effect comprehensive welfare reform at the federal level and to devolve responsibility for the welfare population onto the states, which culminated in the passage of the PRWORA in 1996.

The Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA)

The PRWORA replaced AFDC's cash assistance entitlement with benefits and services contingent upon meeting a work requirement. It replaced the AFDC matching grant with a block grant program called Temporary Assistance to Needy Families (TANF). Under this program, states are given a fixed amount of money, determined by funding levels prior to 1996, regardless of the number of families who need assistance, and also a great deal of flexibility in determining how the money is spent. To be eligible for benefits, adults must be engaged in work activities after no more than two years on welfare. The legislation mandated time limits on lifetime assistance with federal funds to a maximum of five years and allowed states the option to adopt more stringent time limits or work requirements.

States were given specific participation goals which rise gradually over time. In FY 1999, a participation rate of 35 percent was required for all one-parent families (90 percent for two-parent families). States are allowed to count caseload reductions since FY 1995 in calculating progress toward their participation requirements. To count toward the required participation rate, adults must work a minimum number of hours. In FY 1999, the requirement for single parents was 25 hours a week (20 hours for parents with a child under six years), increasing to 30 hours in FY2000.

States are allowed to impose work requirements more or less stringent than those set by the federal government and may allow participation in work activities other than those allowable under the federal requirement. (If states impose less stringent requirements, they must use state funds to cover cash assistance to families covered by these less stringent requirements.) States may also elect to grant a one-time exemption to single parents with infants under 12 months of age from work requirements and to disregard them in calculating work participation rates. The legislation authorizes states to impose sanctions that limit or eliminate cash assistance for families that do not comply with work requirements. Finally, states are allowed considerable flexibility in spending TANF dollars, up to 30 percent of which could be transferred and used for child care.

PRWORA also made dramatic changes in the structure of federal child care assistance programs. The Child Care and Development Fund (CCDF) represents a combination of the four major federal child care programs into a single program subject to the Child Care and Development Block Grant Act, as amended under PRWORA. Combining funding requirements of the previous four federal subsidy programs, the new Child Care and Development Fund requires states to contribute funding in order to draw down a proportion of their federal allotment; an additional proportion goes to states without state contributions. Because there are no longer four sets of rules to follow, states have much more flexibility in deciding how child care funds are expended. The legislation substantially increased the level of federal funding. To encourage states to pay attention to the quality of the child care being provided, they were required to set aside a minimum of 4 percent of the grant for quality improvement. While this set-aside is a smaller percentage than that required under the previous block grant program, because of the substantial increase in overall funding, dollars for quality initiatives were substantially increased. In addition, the legislation earmarked funds to increase the supply of specific types of care (e.g., care for infants and toddlers, school-age care, etc.).

The work requirements imposed by the PRWORA raised a number of policy issues related to child care, including the following:

- While the legislation allowed states the flexibility to redress the shift of subsidies from the working poor to welfare recipients that occurred during the early years of the decade (Blank, 1997), it was feared that, under the pressure of the work requirements, states might allocate all or most of their child care funds to welfare families.

- Under pressure to provide assistance to an increasing number of poor families, states might change their subsidy policies in ways that would constrain parents' choice of child care to less-expensive, less-regulated care.

- Increased demand for child care might create shortages in some types of care, particularly infant and school-age care or care for atypical schedules.

To address these and other policy issues, the federal government funded a five-year study of child care for low-income families that would examine the impact of federal and state welfare and child care policies on communities and on low-income parents and children in those communities. The study is described briefly below

The National Study of Child Care for Low-Income Families

The *National Study of Child Care for Low-Income Families*, conducted by Abt Associates Inc. of Cambridge, Massachusetts, and the National Center for Children in Poverty at Columbia University's Joseph Mailman School of Public Health in New York City, will provide federal, state and local policy makers with information on the effects of federal, state and local policies and programs on child care at the community level, and on the employment and child care decisions of low-income families. It will also provide insights into the characteristics and functioning of family child care, a little-studied type of care frequently used by low-income families, and the experiences of parents and their children with this form of care.[1]

Study Objectives and Design

The study is designed to examine how states and communities formulate and implement policies and programs to meet the child care needs of families moving from welfare to work, as well as those of other low-income parents; how these policies change over time; and how these policies, as well as other factors, affect the type, amount, and cost of care in communities. In addition, the study is investigating the factors that shape the child care decisions of low-income families, and the role that child care subsidies play in those decisions. Finally, the study is examining, in depth and over a period of 2½ years, a group of families that use various kinds of family child care and their child care providers, to develop a better understanding of the family child care environment and to what extent the care provided in that environment meets parents' needs for care that supports their work-related needs and meets children's needs for a safe, healthy and nurturing environment.

Six specific objectives have been identified for the study, including:

1. To develop an understanding of state child care and welfare policies and how these are formulated and implemented at the community level;

2. To develop an understanding of how other community-level factors (e.g., the community poverty rate, labor market, and the nature and scope of institutions related to child care) affect the way that communities are organized to help low-income families address work and child care needs;

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[1] In this study, family child care is defined as care by an adult, related to the child or unrelated, in that adult's own home and outside the child's own home.

3. To examine the effects of child care and welfare policies and community-level factors on the demand for and the supply of child care, and on the types of child care arrangements that low-income parents make;

4. To examine changes in policies and programs over time and the effects of these changes;

5. To examine and model the child care decisions of low-income families and the role of child care subsidies in decision-making; and

6. To conduct an in-depth examination of family child care used by low-income families, including the role of family child care in helping poor families manage the competing demands of work and child care, and children's experiences in the care environment.

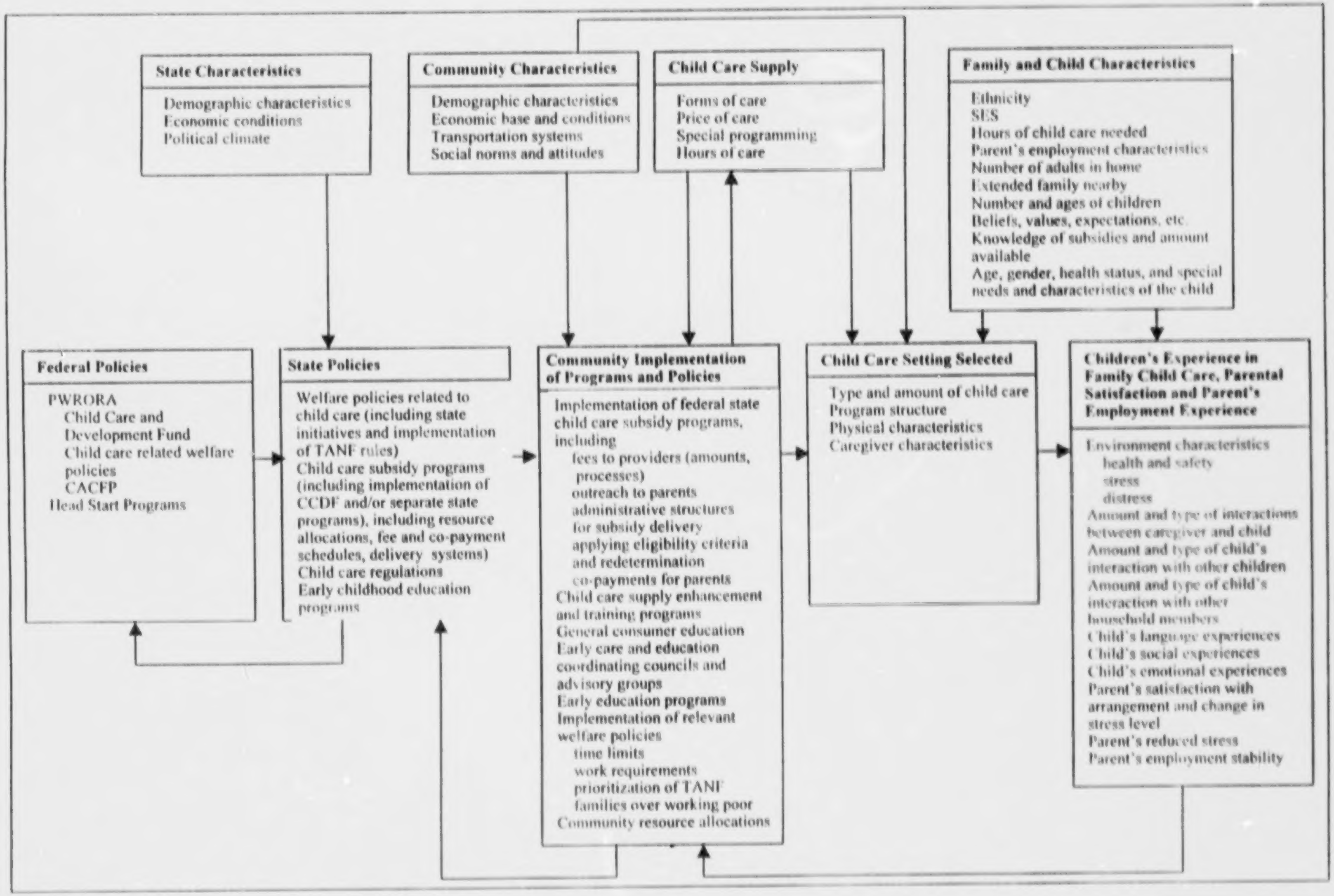
To address these objectives, information is being gathered from 17 states about the formulation and administration of child care and welfare policies and programs, and about resource allocations. Within the 17 states, information is being gathered from a total of 25 communities about the implementation of state and local policies and the impact of those policies and practices on the local child care market and on low-income families. Information on states is collected twice: in 1999 and in 2001, and on communities three times over the same period to allow us to investigate change over time in policies and practices. From individual families in these communities, we are gathering information on how state and local policies and programs, as well as other factors, influence parents' decisions about child care, the stability and continuity of child care, the child care choices they make, and how these choices affect their ability to find and retain a job or participate in educational or training programs. This information is being collected through a one-time survey of low income parents in 25 communities. In addition, we are collecting more detailed information on families that use family child care, their providers and the experience of children in family child care. This portion of the study will involve multiple data collection efforts over a 2½ year period, to allow us to track changes in parental employment, subsidy status and child care arrangements over time.

Framework for the Study

Exhibit 1.1 illustrates a conceptual framework for the study as a whole. In this model, time passes from left to right. Federal policy is interpreted by the states, which may enact legislation or develop separate, related policies. These policies have been shaped by the state context. Federal and state policies are then implemented at the local level. The implementation of these policies in turn affects the existing supply. Parents' selection of care is affected by the family context, the characteristics, including cost, of the supply of care available to them, and the ways in which communities implement subsidy and other policies. Children's experiences in child care are a result of the attributes of a particular child care arrangement, as it is shaped by the family context.

The arrows from right to left at the bottom reflect the feedback from parents to communities, communities to states, and states to the federal government that further shapes child care policies. Children's and parents' experiences with child care arrangements, and the supply of care available, further shape community implementation of policy. Feedback from the community to the state about the way that child care policies are being implemented and their effects further shapes state policies. States may, in turn, adjust resource allocations, change child care regulations, adjust co-payment and fee schedules, and/or change TANF policies. They base these decisions on a variety of considerations, such as whether or not all child care funds are expended, if there is excess demand for child care, whether TANF programs have had difficulty meeting the percentage work requirements, or if there is a dramatic drop in the welfare rolls. Formation of federal policy may be based, in turn, on feedback from the states.

Exhibit 1.1: CONTEXTUAL FRAMEWORK FOR THE STUDY


State Characteristics
Demographic characteristics
Economic conditions
Political climate
Community Characteristics
Demographic characteristics
Economic base and conditions
Transportation systems
Social norms and attitudes
Child Care Supply
Forms of care
Price of care
Special programming
Hours of care
Family and Child Characteristics
Ethnicity
SES
Hours of child care needed
Parent's employment characteristics
Number of adults in home
Extended family nearby
Number and ages of children
Beliefs, values, expectations, etc.
Knowledge of subsidies and amount available
Age, gender, health status, and special needs and characteristics of the child
Federal Policies
PWRORA
Child Care and Development Fund
Child care related welfare policies
CACFP
Head Start Programs
State Policies
Welfare policies related to child care (including state initiatives and implementation of TANF rules)
Child care subsidy programs (including implementation of CCDF and/or separate state programs), including resource allocations, fee and co-payment schedules, delivery systems)
Child care regulations
Early childhood education programs
Community Implementation of Programs and Policies
Implementation of federal state child care subsidy programs, including
fees to providers (amounts, processes)
outreach to parents
administrative structures for subsidy delivery
applying eligibility criteria and redetermination
co-payments for parents
Child care supply enhancement and training programs
General consumer education
Early care and education coordinating councils and advisory groups
Early education programs
Implementation of relevant welfare policies
time limits
work requirements
prioritization of TANF families over working poor
Community resource allocations
Child Care Setting Selected
Type and amount of child care
Program structure
Physical characteristics
Caregiver characteristics
Children's Experience in Family Child Care, Parental Satisfaction and Parent's Employment Experience
Environment characteristics
health and safety
stress
distress
Amount and type of interactions between caregiver and child
Amount and type of child's interaction with other children
Amount and type of child's interaction with other household members
Child's language experiences
Child's social experiences
Child's emotional experiences
Parent's satisfaction with arrangement and change in stress level
Parent's reduced stress
Parent's employment stability

Study Research Questions

At the **state level**, the study uses analyses of administrative and program data, and interviews with state child care and welfare agency staff to address the following questions:

- What are the strategies that states use to make the most effective use of available funds to meet the child care needs of low-income families? What are states' views of the adequacy of available funds and what efforts are made to change funding levels? How do states balance decisions about who should receive subsidies (eligibility rules), how much parents should be required to contribute (co-payment levels), and how much subsidy individual providers should get (payment rates)? What are state policy makers' rationales for these tradeoffs and their intended effects? What subsidy mechanisms (e.g. vouchers vs. contracts) do states use? On what basis are providers reimbursed for care (i.e., hours of care vs. blocks of time)? What kinds of families receive child care subsidies and for what types of child care?

- What are the systems that states put in place to implement child care programs and coordinate the programs with one another as well as with other programs that serve low-income children and their families? What initiatives are in place to increase the supply of child care and improve access and quality?

Similarly, at the **community level**, the study uses analyses of administrative and program data, as well as interviews with agency staff and key informants and focus groups with low-income parents and providers to address the following questions:

- How are state and local child care and welfare policies and programs interpreted and implemented at the local level? How do state subsidy policies on notification, eligibility, parent co-payments, provider fees, form of payment and time formula for payment actually work and what do community members perceive to be their impact?

- What is the community context in which child care programs operate?

- What are the resulting characteristics of the local child care market, especially with respect to the choices available to low-income families?

- How is the child care market for low-income families affected by significant changes in welfare policy and programs?

At the **individual level**, the study uses a combination of strategies to gather information, including for children under 13 years of age: a community survey of low-income parents, working or in school and using non-parental child care; in-person interviews with low-income working mothers (or custodial fathers) who use family child care and with their child care providers; observations of young children in their care environments; and interviews with children aged nine to thirteen. Below, we discuss each strategy and the research questions it is designed to address.

The ***community survey*** is a random-digit dialing survey of poor and near-poor families in each of the 25 study communities. It will answer the following questions:

- How many different child care arrangements, and what types, do low-income families use?

- What are the factors that influence low-income families' choice of non-parental child care?

- How do different state and local child care and welfare policies affect low-income parents' child care choices?

- What are the factors that influence income-eligible families to apply for child care subsidies?

- What are low-income parents' perceptions about the availability, accessibility and affordability of different kinds of care in their community?

- What proportion of family cash income is spent on child care in low-income families?

- How well do child care arrangements meet low-income parents' work- or education-related needs?

- How does the presence or absence of a child care subsidy affect parents' child care and employment decisions?

In-person interviews in five of the 25 communities with low-income parents who have chosen family child care at the beginning of the study, and who are receiving or are eligible for a child care subsidy, will address the following questions:

- What are the factors that influence parents to choose family child care? How do these change over time?

- How do child care arrangements change over time and what are the reasons for the changes?

- How does the presence or absence of subsidy affect parents' choice of child care provider?

- How does the presence or absence of a subsidy affect the stability and continuity of the child care arrangement?

- How does the presence or absence of a subsidy affect the type, stability and continuity of parents' employment?

- What happens to parental employment and child care arrangements when families lose their subsidy?

- How do aspects of the family child care arrangement, such as the parent's relationship with the provider, the stability, continuity or flexibility of the arrangement, etc., affect parents' ability to work and to balance the competing demands of family and work?

In-person interviews with family child care providers will address the following questions:

- What are the characteristics of family child care providers?

- What is the motivation for providing child care services?

- How do providers view their role?

- What is the nature of the relationship between parents and providers?

Observations in the family child care setting will address the questions:

- What are the characteristics of the care environment?
- What is the nature of children's experience in the child care setting?
- What is the level of child functioning in the child care settings?
- How do children's experiences change over time?

Interviews with school-age children will address the questions:

- How do school-age children spend their out-of-school time?
- What kinds of activities do children engage in during out-of-school time?
- Who chooses the activities for these school-age children?

The Study Sample

Information for the study is collected at three levels, with nested samples of communities within states and families and providers within communities. The first level is a sample of **17 states** containing **25 communities** that were selected from a national sampling frame to be as close as possible to a representative sample of counties with child poverty rates above 14 percent. At the **family level**, the study includes several samples: a **random sample of 2,500 low-income families (with incomes under 200% of federal poverty guidelines)** with working parents and at least one child under age thirteen for whom they use non-parental child care in the 25 communities (100 per community); a sample of **650 low-income parents who are receiving, or are eligible for, child care subsidies, and who are using family child care at the start of the study;** and a sample of the **650 family child care providers linked to these 650 families.**

Selection of States and Communities

The primary focus of the state and community-level analyses is an examination of how federal and state policies and practices are implemented at the local level. Therefore, rather than first selecting a sample of states and then selecting a sample of communities within those states, we allowed the selection of states to be determined by the sample of communities included in the study.

For the *National Study of Child Care for Low-Income Families*, we have used the county as our definition of a community. An advantage of using counties is the availability of benchmark data at the county level from the *National Child Care Survey* (NCCS) and the *Profiles of Child Care Settings* (PCCS) studies conducted in 1990 in a nationally representative sample of counties.

Our goal in the selection of counties was to select a sample that, in a broad sense, would be representative of where low-income children live. Starting with the NCCS/PCCS sample of 100 counties or county groupings, we identified 80 counties/county groupings with a 1993 poverty rate for children greater than 13.8 percent. When properly weighted, these 80 counties/county groupings represent more than 90 percent of poor children in the United States in 1990. Our sample of 25 communities was selected to be a representative sample of these 80 counties/county groupings.

Our sample of 25 counties/county groupings resulted in a sample of 17 states. The sample of counties and states is shown in Exhibit 1-2.

Exhibit 1-2: SELECTED STATES AND COMMUNITIES

State	Communities (Counties or County Groupings)	State	Communities (Counties or County Groupings)
Alabama	Mobile	New Mexico	Dona Ana Luna/Grant/Hidalgo
California	Los Angeles* Orange Riverside	New York	Orange
Illinois	Cook	North Carolina	Mecklenberg Alamance Johnston
Indiana	Madison	Ohio	Hamilton*
Louisiana	Oachita	Tennessee	Shelby Hardeman/Fayette/Lake/Lauderdale Marshall/Coffee/Bedford
Massachusetts	Franklin*	Texas	Harris*
Michigan	Wayne	Virginia	Arlington
Minnesota	Hennepin Itasca/Koochicking/Pennington	Washington	King*
New Jersey	Union		

* Included in the in-depth study of family child care.

Selection of Families for the Community Survey in 25 Counties

The primary objective of the *Community Survey* is to provide information about the child care choices made by low-income working parents and the factors that influence their decisions. Information is being collected through a one-time random-digit dialing (RDD) telephone survey in each of the 25 study communities that began in late summer of 1999. Households are screened for:

- children under age 13;
- a mother working or in school;
- family income below 200 percent of federal poverty; and
- at least one child under 13 using some form of non-parental child care.

Sufficient households will be screened to yield a sample of 100 families in each community using work- or education-related child care. This sample will be used to describe the distribution of the types of child care used by low-income families in each of the study communities.

Across the 25 communities, the sample includes a total of 2,500 such families -- some families that are receiving subsidies, some that are on waiting lists to receive subsidies, as well as families who are eligible for, but have not applied for, subsidies. In addition, it includes some families whose incomes place them just above the eligibility limits. This sample will be used to address questions about parents' choice of child care arrangements, the cost of care as a percentage of family income, and the effects of child care and subsidy policies (as well as welfare policies) on their choices.

Selection of a Subsample of Five Communities for the In-Depth Study of Family Child Care

An in-depth examination of low-income families using family child is being conducted in a subsample of five of the 25 communities. The five counties included in the subsample were selected to represent the following:

- some geographic distribution;
- variation in state regulatory and subsidy policy;
- variation in other policy relevant indicators;
- variation in urban vs. rural location;
- different concentrations of poverty populations;
- ethnic mix within the community; and
- factors facilitating implementation of the study (e.g., cooperation of local and state personnel).

In addition, the counties needed to include a sufficient number of subsidized families to provide an adequate sample for the in-depth examination of family child care. The five counties selected for the substudy are starred in Exhibit 1-2.

Selection of a Sample of 650 Low-Income Parents Using Family Child Care in the Five Counties

The sample of 650 low-income working parents with children aged one to nine years in family child care comprises 130 families in each of the five counties. All of the families included in this sample were eligible to receive child care subsidies at the time of sample selection. This sample is stratified by subsidy status and age of child. The sample includes 300 children ages one to five and 350 school-age children, ages six to nine.

Study Reports

This report is the first in a series of reports on study findings. It presents findings from the State and Community Substudy, which is primarily concerned with examining the ongoing changes in state and community child care and welfare systems associated with the implementation of the 1996 welfare reform legislation. A second report on these topics will be available in 2001 and a final report in 2002. A report detailing the findings from the Community Survey will be available in 2001. A series of reports that will present findings from the In-Depth Study of Family Child Care will be available, beginning in 2001 and ending with a final report in 2002.

Context for the State and Community Report

The state and community substudy focuses on the three shaded boxes in Exhibit 1.1. Below we describe the state and community context for the report and the federal context within which states operate. A final section describes the sources of information for the report and the data collection process.

The Federal Context

The decisions that states make about child care are dictated, in large part by the federal dollars they receive for child care and the regulations that govern the uses of that money. The purpose of the study is to develop a better understanding of how federal policies are interpreted at the state level and ultimately implemented at the community level. The major policies and programs that are the focus of the study are the Child Care and Development Fund, and those aspects of TANF that are directly related to child care, such as TANF funded child care programs, time limits for cash assistance and work requirements.

Section 103 (c) of the PRWORA repealed the child care programs authorized under title IV-A of the Social Security Act – AFDC Child Care, Transitional Child Care and At-Risk Child Care. In addition, PRWORA appropriated new entitlement child care funds under Section 418 of the Social Security Act, required that these funds be subject to the Child Care and Development Block Grant (CCDBG) Act, and reauthorized the Act. Since PRWORA required that these child care funds be administered as a unified program, the combined funds were named the Child Care and Development Fund.

The major regulatory decisions were: to assure that states have adequate information upon which to base child care payments; to promote public involvement in the plan process; to strengthen health and safety in child care by requiring children receiving CCDF subsidies to be age-appropriately immunized; to require coordination between child care Lead Agencies and agencies administering TANF, health, education, and employment programs; to streamline the CCDF application and plan; and to provide clarifications based on experience operating both the CCDBG program and the now-repealed title IV-A programs.

Under the legislation, Congress provided approximately $8.5 billion for the unified child care program over the fiscal years 1997 – 2000.

The State Context

At the state level, decisions are made about the use of the Child Care and Development Fund Block Grant. These decisions include determining the level of resources for counties, setting eligibility guidelines and prioritizing eligible populations (including priorities attached to serving TANF and non-TANF families), establishing requirements for notification and outreach, developing co-payment scales, and developing fee schedules and direct payments to parents. At the state level, there also may be decisions about how child care subsidies are delivered (although this may be determined at the local level), including whether or not subsidy administration is privatized or whether programs for TANF recipients are administered separately from subsidy programs for non-TANF recipients. Also at the state level, policy decisions are made about relevant aspects of the TANF program, such as the time limits, work requirements, diversion programs, and transitional child care. States also establish child care regulatory systems and may have early care and education programs, such as universal prekindergarten or state Head Start.

States have always had considerable flexibility with respect to child care subsidy policies. However, the amount of flexibility afforded the states has increased substantially under the PRWORA. The PRWORA established the CCDF as the primary source of government subsidies for low-income families. States must spend some of their own funds as a maintenance-of-effort requirement for drawing down their full share of federal funds. Federal regulations limit eligibility for child care subsidies funded out of the CCDF to children with working parents (or parents in TANF work activities) with incomes below 85 percent of state median income. However, states may establish more restrictive eligibility criteria than those set forth in the federal regulations. In terms of policy decisions, the paramount decision for states is how much of their own funds to spend. States may also set their own eligibility requirements and establish their own priorities for serving low-income children. In addition, states determine their own payment rates and co-payment rates for child care subsidies.

State Financial Commitment

The ongoing appropriations establish a maximum amount of federal child care subsidy funds that are available to each state in a given fiscal year. In order to draw down its federal allocation, a state must commit some of its own funds to meet federal requirements for matching and maintenance of effort. Therefore, the first policy decision that a state must make is how much of its own money to spend for child care. States may elect to draw down some or all of their federal allocation and, to date, the majority have drawn their full allocation of federal funds. Beyond the spending necessary for obtaining its share of federal child care funds, a state may elect to spend additional state funds to provide child care subsidies to low-income children.

How then should one assess a state=s financial commitment to providing child care subsidies to low-income children? The CCDF regulations suggest a common measure of need across all statesBthe number of children in families with incomes below 85 percent of state median income (SMI).[2] This measure of need is unaffected by state policy and the proportion of these children served by subsidies, is a meaningful indicator of the relative commitment that states are making to providing child care subsidies to low-income children. The total amount spent per federally-eligible child provides a useful indicator of a state=s financial commitment. Other indicators would include the proportion of its federal allocation a state was able to draw down, and whether a state spent more that the minimum amount necessary to obtain its full federal CCDF allocation.

How Do States Allocate the Child Care Funds?

As well as determining the total amount of money it is going to spend on child care subsidies, a state must make two interrelated decisions:

- how many children to serve; and
- how much should be spent for each child served?

How Many and Which Children to Serve. How can one assess the number of children a state has elected to serve? Again, the CCDF regulations provide a common measure of need across states. A useful indicator of the breadth of a state's commitment to provide child care subsidies to low-income children is the proportion of federally-eligible children who receive a subsidy.

In addition to the number of children served, a state must decide which children to serve. The PRWORA eliminated the child care entitlement for welfare recipients. Unless a state's financial commitment is such that it can serve all federally-eligible children, a state must set priorities for which children it wants to serve first. States may, or may not, give priority to TANF recipients or recent TANF recipients. In addition to determining if it is going to give priority to TANF recipients or recent TANF recipients, a state must decide whether to exclude some federally-eligible children from state-eligibility. A useful indicator of the relative restrictiveness of state eligibility criteria is the proportion of federally-eligible children who are eligible to receive a child care subsidy under state regulations.

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[2] The CCDF stipulates that to be eligible for subsidies, children must be under the age of 13 and reside with a family whose annual income does not exceed 85 percent of SMI for a family of the same size, and in which the parent or parents are working or attending a job training or educational program, or the child may need to receive protective services.

How Much to Spend for Each Child Served. How can one assess the level at which a state has elected to serve children receiving child care subsidies? The average amount spent for each child who receives a subsidy provides a useful indicator of the overall level at which the state has elected to serve subsidized children. Other things being equal, this amount is largely determined by two state policy decisions[3]:

- the payment rate to child care providers; and
- the co-payment that parents are required to make in order to receive a subsidy.

For any given payment rate to providers, the higher the parents= co-payment rate, the lower the state cost. That is, the total provider payment is equal to the state share plus the parents= share.

State policies with respect to payment rates to providers and parents' co-payment rates affect the types of care that low-income children have access to, and the child care choices made by low-income parents. The lower a state=s payment rates, the less likely it is that child care providers will be willing to serve low-income children. The higher a state=s required co-payment fees, the less likely it is that a low-income parent will use subsidized child care. In this way, the co-payment policy also influences which children can be served.

Balancing Administrative Efficiency and Ease of Access for Parents and Providers

Once decisions are made about the allocation of resources, states face a set of decisions about how to administer the system that determines (and redetermines) family eligibility, approves providers for payment and disburses payment. States may choose a state-administered system, in which all functions are carried out by state offices in each community, a system in which all responsibilities devolve to local governmental agencies or a mix of both. They may choose to privatize some or all of the system's functions. Depending on the decisions made, all parents may have to apply for child care assistance at the local TANF office. While this may make for administrative efficiency, it may create a barrier for parents who would otherwise have no contact with what they perceive as the "welfare" system. Alternatively, the system may require families in different eligibility categories (i.e., TANF, transitioning or non-TANF) to apply in different places, removing perceived stigma but increasing the possibility that families moving from one category to another may experience a difficult transition. Processes for determining and redetermining eligibility may be more parent-friendly if they can be accomplished by mail rather than in person.

The system for approving and paying providers may be as important as the payment rates themselves in influencing providers' willingness to accept subsidized children. If the initial approval process and/or the payment process is unwieldy or slow, providers will be more reluctant to participate in the system.

Safeguarding Quality while Protecting Parental Choice

States make other decisions that affect the child care choices that parents who receive subsidies can make and the quality of the care that children receive. While the federal legislation stipulates that all types of ***legal*** care are eligible to receive subsidies, states may declare some types of care illegal or impose requirements that make some forms of care less accessible or inaccessible to parents.

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[3] Average spending per child may be affected by other factors such as the balance of part-time vs. full-time care subsidized, as well as, policies and practices that influence how long children receive subsidies.

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States have a variety of tools by which they can safeguard the quality of care that children receive, beginning with the licensing standards they impose on child care whether subsidized or not, and the system for licensing and monitoring care. They may impose additional requirements for providers who serve subsidized children. Efforts to improve the quality of care beyond the level of licensing and regulation may take the form of differential payment rates for providers who meet a higher quality standard, training and professional development initiatives, grants and loans, funding for local Resource and Referral agencies and a range of other programs to increase supply as well as to enhance quality. Consumer education efforts may be undertaken to make parents aware of quality issues and to help them to make informed choices about care.

State Policies that Affect Families' Use of Subsidies

In every state, only a fraction of federally-eligible children receive subsidies. The major factor that determines how many eligible children are served is, of course, the availability of federal and state funds for child care, which are nowhere adequate to meet the needs of all potentially-eligible children. In addition, as we discussed earlier, some parents may make a conscious choice not to seek governmental help to pay for their child care, because of perceived stigma or for other reasons. Because schedules for low-wage work can be uncertain and change at short notice, families need for paid child care can change suddenly. If parental work schedules and program hours coincide, children may attend a Head Start or state-funded pre-kindergarten while their parents work. More often, since these programs are typically part-day and part year, families will need help to pay for child care that covers the time before and after the hours that these programs operate. Some parents may have work or school schedules that allow one parent to care for the children while the other is at work.

However, state and local policies can affect the willingness of state-eligible families to apply for subsidies and can also work to reduce the number of federally-eligible children served. For example, a high co-payment for subsidized care may lead parents to seek alternative types of care where the fees are less than the co-payment for subsidized care. In other cases, state and local policies and procedures may make it difficult for some low-income working parents to gain access to the subsidy system. Parents might be required to apply in-person during business hours when the parent is working, or in-person at a location that is relatively inaccessible to the parent. And, since child care is not an entitlement, states may not allocate enough money for child care subsidies to serve all of the eligible families.

Subsidy take-up rates may be affected by a variety of policies including:

- ***Restrictiveness of state eligibility criteria.*** Since states are free to set their own eligibility criteria, many children who might be eligible to receive a child care subsidy under federal eligibility criteria may not be eligible under state criteria. All of the study states have given priority to providing child care subsidies to TANF[4]. By contrast, with the exception of New Mexico, all of the study states have established income-eligibility criteria for non-TANF recipients that are more restrictive than the federal criteria. The ratio of the number of children eligible for subsidies under state criteria to the number of children eligible under federal criteria is an indicator of the degree to which state policy restricts eligibility to child care subsidies. The lower this ratio, the more restrictive is the combined effect of a state's eligibility criteria.

- ***Value of the child care subsidy to low-income parents.*** The state share of total payments to child care providers provides a measure of the value of a child care subsidy to low-income

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[4] Children receiving protective services are also a priority for subsidized care.

families. Other things being equal, the higher the state payment to providers the more valuable the subsidy is to parents. Higher state payments to providers give low-income families access to a larger segment of the child care market. State payments to providers depend on several factors including the number and ages of children in a family receiving child care subsidies, and the types of care used by these children.

- ***Cost of receiving a child care subsidy.*** Most states require low-income families to make a co-payment in order to receive a child care subsidy although CCDF regulations allow them the option to waive the requirement for families at or below the poverty level. The co-payment may be thought of as the cost of receiving a child care subsidy. Regardless of the value of the subsidy, a family must make the required co-payment. One would expect that the higher the co-payment, the less likely it is that a low-income family will take advantage of the subsidy. If states allow providers to charge families an additional amount, beyond the co-payment, this may also discourage families from using subsidies.

The Community Context

Several policies and programs implemented (and sometimes developed) at the community level have an impact on low-income families' access to child care. These include the implementation of child care subsidy programs, the development and/or implementation of initiatives to improve families' access to high quality child care, the implementation of welfare policies and programs, and the development and/or implementation of other early care and education programs.

Child care subsidy programs and other early care and education programs are implemented at the community level. With few exceptions, it is at this level that parents interact with case workers or resource and referral counselors who determine their eligibility and inform them of child care options that are available to them. It is where child care providers find out about payment procedures and interact with staff when there are problems with payments. Agencies and staff at the community level interpret and apply the rules related to eligibility, fee schedules, co-payments, etc., that are determined at the state level.

Other efforts to increase families access to high-quality child care occur, from provider recruitment and training programs, to consumer education efforts, to facilities loan programs. These are initiated and funded through a variety of mechanisms, including state programs, public-private partnerships, community-level initiatives, and hybrid programs. In some communities, there are also coordinating bodies that are developed to rationalize the early care and education system.

TANF policies set by the state are interpreted and implemented at the community level. These include diversion programs, time limits, work requirements, entitlements to child care for TANF recipients, and transitional child care eligibility.

At the community level, other early care and education programs are developed and/or implemented. In addition to state prekindergarten programs and state investments in Head Start programs, school districts and other community-level agencies may have early care and education programs.
The implementation of early care and education policies is influenced by community contexts, including demographic characteristics (e.g., poverty levels, the proportions and ages of young children, women s labor force participation), the economic base and conditions (e.g., the types of industries in the community, unemployment levels, wage rates), the extensiveness of public transportation systems, as well as social norms and attitudes.

Sources of Information and Data Collection for this Report

Exhibit 1.3 shows the sources of information for this report.

Exhibit 1.3: DATA SOURCES FOR THIS REPORT

Sample	Information Sources	Data Collection Staff	Schedule
17 States	• Interviews with key informants, such as child care administrator, welfare commissioner, child care licensing staff • Review & synthesis of extant materials • State budgets and administrative data • Census data • Current Population Survey (CPS) data	Abt/NCCP Senior Study Staff	Summer/fall 1999
25 Counties	• Interviews with key informants, such as child care agency staff, CCR&R staff, subsidy administrators	Abt/NCCP Senior Study Staff	Summer/fall 1999
	• Review and synthesis of extant materials	Abt/NCCP Staff	Summer/fall 1999

Data Collection

After an initial review of state plans and other extant documents, two-person teams of Abt and NCCP study staff visited the 17 states and 25 communities to conduct intensive interviews with agency staff and other key informants. In each state, between three and five agency staff were interviewed in the 25 communities; the number of key informants ranged from six to 14, depending on the size of the community and the complexity of the child care system. After site reports were completed, states were asked to review, correct and/or complete financial and administrative data on subsidy use. Once a draft report had been prepared, states were offered an additional opportunity to correct factual errors and register any disagreement with our interpretation of the information collected.

Chapter Two: State Spending on Child Care after PRWORA

With the creation of the CCDF, the federal government also significantly increased the overall funding available for child care. For the six-year authorization period, the legislation included $4 billion in funding over and above federal funding levels for child care programs in previous years.[5] There were understandable fears that many states would not spend the state dollars necessary to draw down all the newly-available federal dollars, in part because, in the past, states had not used all the federal funds available to them.[6]

This chapter examines the total child care expenditures made by the study states in the first three years of the CCDF and TANF, federal fiscal years 1997 through 1999.

Summary of Findings

- **Spending by most states in the study grew dramatically during the Child Care and Development Fund's first three years.** In response to mounting demand for child care subsidies, expenditures grew in every study state between federal fiscal years 1997 and 1999. The median increase in child care spending in the study states over the three-year period was 78 percent.

- When differences in the costs of child care and the number of low-income children in the states are accounted for, **the median adjusted spending per federally-eligible child nearly doubled in the study states.** As findings for Chapter Three show, however, states were still serving only a fraction of the children potentially eligible under federal law.[7]

- Putting to rest initial fears that many states would not take advantage of all available CCDF funding, **the majority of the study states spent sufficient state dollars to draw down virtually their full allocations of federal CCDF dollars. In fact, beyond the dedicated child care funds from the CCDF, states made increasing use of optional federal and state funds not earmarked for child care.** Median child care spending from all federal and state optional sources as a percentage of total expenditures for child care more than doubled between 1997 and 1999, going from 16 to 40 percent.

- **The federal TANF Block Grants became the study states' prime new source of optional child care funding during these years.** In 1997, only three of the 16 reporting states used

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[5] Gina Adams and Nichole Oxendine Poersch, *Who Cares? State Commitment to Child Care and Early Education*, Children's Defense Fund, 1996, p. 42.

[6] In 1994, 20 states had not allocated sufficient state funds to draw down all the federal funds available to them through the Family Support Act, At-Risk child care program. (Helen Blank, *Helping Parents Work and Children Succeed: A Guide to Child Care and the 1996 Welfare Act*, Children's Defense Fund, p. 9.)

[7] See Chapter Three, Exhibit 3-2. Study states were also serving only a portion of those eligible under state guidelines, and waiting lists for subsidies still existed in 12 of the 17 study states in 1999. See Exhibits 3-11 and 3-3.

TANF funds for child care; all 16 did so in 1999. In 1997 just one state drew more than 20 percent of child care expenditures from its TANF Block Grant; in 1999, 12 states did so.[8] Fifteen of the 16 states using TANF funds for child care in 1999 transferred significant portions into the CCDF, where they came under the health, safety and quality provisions of the CCDF. Ten states expended TANF funds directly for child care in 1999.

- **Social Services Block Grant (SSBG/Title XX) funds were a declining source of child care spending.** Ten states used these funds in 1997. Joined by one other state, these states also used SSBG funds in 1999. For most of the initial 10 states, however, SSBG represented a smaller percentage of their spending in 1999.

- **States' patterns of spending—and not spending—their own optional funds on child care held steady between 1997 and 1999.** Of the 11 states that reported using optional General Revenue for child care in 1997, ten reported continuing to use optional state funds in 1999. Moreover, these states generally increased their spending of optional state funds as their spending from all sources grew. On the other hand, the five states that spent no optional state money in 1997 also spent none in 1999.

- **Growth in state spending on quality activities kept pace with growth in total child care spending.** The median increase in spending on quality activities was 85 percent, slightly higher than the median increase in overall spending. Between 1997 and 1999, **the median in adjusted quality spending per child of employed parents more than doubled in the study states. Of the 16 states reporting, 11 in 1997 and 14 in 1999 exceeded the 4 percent quality spending required from designated streams within the CCDF**. Moreover, in both years, for seven of the reporting states, quality spending exceeded 4 percent of their total child care spending from all sources, not just those within the CCDF.

Provisions of the New Child Care and Development Fund

Key provisions of the new CCDF contributed to early concerns that states would fail to use all the federal and state funds it made available. The CCDF eliminated all previous child care entitlements. AFDC child care and Transitional Child Care had been entitlements for eligible families while they received cash assistance and for one year afterward. The federal government had reimbursed states for a percentage of the costs associated with all the children they served in these two programs. The Family Support Act's At-Risk Child Care and CCDBG were not entitlements; states had fixed allocations for each.

The CCDF also reduced earlier matching and maintenance-of-effort requirements. At-Risk Child Care required a state match, and CCDBG included a maintenance-of-effort requirement. The CCDF made "Mandatory" base funding available to states without any match and made "Discretionary" funding—successor to the CCDBG—available without a maintenance-of-effort or matching requirement. New federal "matching" funds, however, were available only to states meeting new "maintenance-of-effort" and "matching" requirements.

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[8] During this period, states had a unique opportunity to transfer prior-year TANF funds to the CCDF. Under the final TANF regulations issued in April 1999, states were informed that, after October 1, 1999, they could transfer only current-year TANF funds to CCDF and SSBG. That meant states had until the end of September 1999 to transfer prior year TANF funds, after which use of those funds was restricted to assistance purposes. Some states indicated that, as a result, they elected to transfer large amounts of 1997, 1998, and 1999 funds before October 1, 1999, and that transfers in FY 2000 or FY 2001 may not equal this one-time transfer.

States could tap federal and state sources of child care funding beyond the CCDF. Every federal source of child care funding did not become part of the CCDF. States were able to spend for child care from their TANF Block Grants, either directly or by transferring funds into the CCDF. The Social Services Block Grant (SSBG), also known as Title XX, remained a separate, though diminished, potential source of child care funding.[9] The SSBG, which was used for child care by at least 33 states prior to the CCDF, was reduced by 15 percent by PRWORA.[10] Another remaining federal source of child care funding was Title IV-E of the Social Security Act, used by several states to provide child care subsidies for children in their child welfare systems.[11]

States were also free to spend more of their own money than the amounts necessary to draw down their full federal allocations from the CCDF. Prior to the implementation of the CCDF, some states had spent more than the minimum necessary to access funds from the earlier federal programs, enabling them to extend child care assistance to greater numbers of children and families. Some, for example, had created their own Transitional Child Care programs, extending child care assistance to former welfare recipients beyond the twelve months supported through the federal program. Others had earmarked state funding for children in child protective services. There was some concern that states might reduce these commitments, using instead funds available under the CCDF.

Finally, although state spending on prekindergarten and other early childhood education programs is beyond the scope of this report, it is important to note that states make significant state investments in these programs.[12] The CCDF allowed states to use prekindergarten funds to meet portions of the maintenance-of-effort and matching requirements, when states demonstrated that their prekindergarten programs supported the needs of low-income employed parents.[13]

Growth in Child Care Spending

Concern that many states would not take advantage of all the funding available through the consolidated and expanded Child Care and Development Fund was quickly put to rest. In federal fiscal year 1997, the first year of CCDF and PRWORA, all states met the maintenance-of-effort and matching spending requirements to receive their full allocations of federal CCDF dollars. State and federal spending on child care reported to the federal government for that year increased 35 percent over the previous fiscal year.[14] Child care spending continued to grow dramatically in the majority of study states during federal fiscal years 1998 and 1999.

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[9] If included in the mix of subsidy funds received by for-profit centers, SSBG makes the centers eligible for reimbursements from the Child and Adult Care Food Program.

[10] Helen Blank, *Helping Parents Work and Children Succeed: A Guide to Child Care and the 1996 Welfare Act*, Children's Defense Fund, 1997, p. 60.

[11] Also, under AFDC, significant support for child care came indirectly through the "child care disregard" mechanism. Rather than making specific payments for AFDC child care, many states deducted families' child care costs before calculating their cash assistance levels, which had the effect of increasing cash assistance levels. With the creation of TANF, the states were no longer required to offer a child care disregard. According to the State Policy Documentation Project, a joint project of the Center for Law and Social Policy and the Center on Budget and Policy Priorities, as of December 1998, 19 states no longer used a child care disregard. Of the 32 states and the District of Columbia which had a child care disregard, all but six provided maximum disregards of $200 per month for children under age 2 and $175 for older children.

[12] Forty-one states and the District of Columbia spent over $1.6 billion on prekindergarten initiatives in 1998-1999. Karen Schulman, Helen Blank, Danielle Ewen, *Seeds of Success: State Prekindergarten Initiatives, 1998-1999*, Children's Defense Fund, pp. 13-16.

[13] The CCDF allows a state to use prekindergarten funds to meet up to 20 percent of its maintenance-of-effort requirement, only if the state has not reduced its expenditures for full-day/full-year child care services. The CCDF also allows a state to use prekindergarten funds to meet up to 20 percent of its matching requirement, provided its state CCDF plan includes a description of efforts to ensure that its prekindergarten program meets the needs of employed parents.

Sixteen of the 17 study states[15] have provided complete information on their actual child care expenditures from every federal and state source—both dedicated CCDF sources they must spend on child care and optional sources they may spend—for fiscal years 1997-99.[16] Among these states, increases in total child care spending between FFY 1997 and FFY 1999 ranged from a low of 17 percent in Massachusetts to a high of 311 percent in Louisiana. Five of these states (California, Indiana, Louisiana, Minnesota, New Mexico) experienced growth in spending of more than 100 percent. Six more experienced between 50 and 100 percent growth. (See Exhibit 2-1.) While five states (Massachusetts, New Jersey, North Carolina, Ohio) experienced growth of less than 50 percent, two of these (Massachusetts and North Carolina) were already relatively high spenders on child care, with the highest adjusted annual spending per federally-eligible child among the study states in 1997. (See Exhibit 2-3 below.)

The median rate of increase in child care spending in the reporting states over the three years was 78 percent. (See Exhibit 2-1 and Appendix Table 2-1.)

Exhibit 2-1: GROWTH IN CHILD CARE SPENDING

Percentage growth in spending, from all sources, federal fiscal years 1997 – 1999.

Percentage Growth	Number of States	States
Less than 50%	5	Massachusetts, New Jersey, North Carolina, Ohio, Tennessee
50% - 100%	6	Alabama, Illinois, Michigan, Texas, Virginia, Washington
101% - 200%	4	California, Indiana, Minnesota, New Mexico
More than 200 %	1	Louisiana

The large increases in total spending for child care clearly indicate that states are strengthening their commitments to providing child care subsidies to low-income children. Yet it is difficult to make meaningful comparisons across the states without taking into account differences in child care costs and differences in the size of the target population of low-income children. Each state's total child care expenditures were therefore adjusted to "correct" for differences in child care costs.[17] To eliminate the effects of differences in population size, we divided each state's adjusted expenditures by its estimated number of children potentially eligible for child care subsidies, using maximum federal eligibility levels.[18]

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[14] U.S. Department of Health and Human Services, HHS Fact Sheet: State Spending Under the Child Care Block Grant, November 12, 1998.

[15] Financial information is not available from the state of New York.

[16] Our methodology began with states' ACF-696 financial reports to the federal government on CCDF spending. From fourth quarter ACF-696 reports for FFYs 1997 and 1998, we entered onto a matrix for each state its reported spending during those years, from allocations for those years. We also entered TANF child care spending information from states' ACF-196 reports for the fourth quarters of FFYs 1997 and 1998. We then sent the partially completed matrices to the states to verify amounts entered, enter spending for FFY 1999 from that year's allocations, and to add additional amounts spent during each federal fiscal year—from allocations carried over from earlier fiscal years and from allocations not reported on 696 or 196 forms. Throughout the process, we worked closely with financial staff from each state.

Exhibit 2-2 presents an overview of expenditures per federally-eligible child in the study states between FFY 1997 and FFY 1999. Median adjusted spending per federally-eligible child increased by 41 percent between FFYs 1997 and 1998 (from $307 to $432) and by another 26 percent between FFYs 1998 and 1999 (from $432 to $544).[19] Among the study states, the top and bottom of the spending range remained widely separated during this period—by $598 in 1997 and $545 in 1999. (Appendix Table 2-3.)

Exhibit 2-2: ANNUAL SPENDING PER FEDERALLY-ELIGIBLE CHILD

Adjusted Total Annual Spending Per Federally-Eligible Child, federal fiscal years 1997-99

	FFY 1997	FFY 1998	FFY 1999
Range	$166 - $764	$298 - $776	$379 - $924
Median	$307	$432	$544

For the most part, states that spent relatively high amounts per federally-eligible child in FFY 1997 also spent relatively high amounts in FFY 1999. Massachusetts, for example, was the highest spending state in FFY 1997 and in FFY 1999. Similarly, states that were spending relatively low amounts per federally-eligible child in FFY 1997 were also spending relatively low amounts in FFY 1999 (Exhibit 2-3). There were, however, a few notable exceptions. For example, Louisiana increased its spending per federally-eligible child by 400 percent (from $166 to $681) and moved from being the lowest-spending study state in FFY 1997 to one of the highest in FFY 1999. On the other hand, because Ohio's spending grew only slowly between FFY 1997 and FFY 1999 (from $306 to $379), it went from being a moderate spending study state to being one of the lowest over the three-year period.[20]

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[17] Expenditures were adjusted using a child care cost index based on the relative average hourly wage for a child care worker. The Child Care Cost Index is defined as : $CCCI_i = W_i/W_N$), where W_i = average hourly wage rate for child care workers in Region i, and W_N = national average hourly wage rate for child care workers. Adjusted child care expenditures in State j = actual child care expenditures in State j divided by $CCCI_i$, when State i is located in Region j. Average hourly wage rates for child care workers were obtained from the 1997 Census Bureau's National Compensation Survey. Wages are estimated for 9 Census regions, nationally.

[18] The estimated number of potentially-eligible children under federal eligibility criteria provides a common benchmark across the states that is unaffected by state policy. These are children in families earning 85 percent or less of the State Median Income and with parents working or in other activities which confer potential eligibility. The estimated number of federally-eligible children is the result of a simulation model estimate conducted by the Urban Institute using data on income, employment, and disability status from the combined March 1996, March 1997, and March 1998 Current Population Surveys, which cover calendar years 1995 – 1997. Of course, in no state do all potentially federally-eligible children receive subsidies. See discussion of "subsidy penetration rate for federally-eligible children" in Chapter Three.

[19] As noted above, state expenditures on prekindergarten and other early childhood programs are beyond the scope of this inquiry. Yet it is important to note that in addition to child care expenditures, many states are making substantial investments in early childhood education programs. For example, in federal fiscal year 1999, Ohio provided $181 million in state funds to extend Head Start services to more eligible families. Ohio reports serving 84 percent of its Head-Start-eligible children in state or federal Head Start programs, compared with a national average of 38 percent. See United States General Accounting Office, *Education and Care: Early Childhood Programs and Services for Low-Income Families*, November 1999, pp. 14-15. As another example, during state fiscal year 1999, North Carolina provided $132 million in funding to counties for early childhood initiatives through the Smart Step program.

Sources of Child Care Funds Available to States

To understand the sources of funds available to the states to cover their increased expenditures, we have broadly grouped the two types of funds available to the states for child care. The first group, which includes all the federal and state funding through the CCDF, is "dedicated" to child care. States ***must*** use these funding sources for child care. The second group includes all other "optional" federal and state sources, not specifically earmarked for child care. These are funds that states ***may***, at their discretion, spend on child care.

Exhibit 2-3: ANNUAL SPENDING PER FEDERALLY-ELIGIBLE CHILD

Adjusted Total Annual Spending per Federally-Eligible Child, federal fiscal years 1997 and 1999

Adjusted Annual Spending per Federally-Eligible Child	Number of States 1997	States 1997	Number of States 1999	States 1999
Less than $250	6	Alabama, Indiana, Louisiana, New Mexico, Texas, Virginia	0	
$250 - $500	8	California, Illinois, Michigan, Minnesota, Ohio, New Jersey, Tennessee, Washington	6	Alabama, Indiana, New Mexico, Ohio, Texas, Virginia
$501 - $750	1	North Carolina	6	Illinois, Louisiana, Minnesota, New Jersey, Tennessee, Washington
More than $750	1	Massachusetts	4	California, Massachusetts, Michigan, North Carolina

Dedicated funding under the CCDF consists of three distinct federal components and two state components. These components and their associated requirements are described in Exhibit 2-4, which presents the sources of dedicated child care funds. Exhibit 2-5 presents similar information for optional federal and state sources of child care funds, which include the federal TANF and Social Services Block Grants and state general revenue funds.

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[20] As described in footnote 18, Ohio provided major state funding to Head Start.

Exhibit 2-4: DEDICATED CHILD CARE FUNDS

Dedicated Funds and Requirements for Use

Federal Funds		***State Funds***	
Source	**Requirements**	**Source**	**Requirements**
Child Care and Development Fund (CCDF)/Mandatory	Annual base amount for each state, determined by funding for former Title IV-A child care programs: AFDC, Transitional, and At-Risk.	CCDF/Maintenance of Effort	Annual amount based on historic state spending on former Title IV-A child care program.
CCDF/Federal Matching	Funds above the annual base amount, available to states meeting Maintenance of Effort and State Matching spending requirements. Amounts available to states determined by number of children under age 13 in each state.	CCDF/State Matching	State's required annual matching amount based on Medicaid matching rate.
CCDF/Discretionary	Annual amount for each state based on formula for former Child Care and Development Block Grant program.		
Former Child Care and Development Block Grant (CCDBG)	Funds carried over from earlier CCDBG allocations.		

Exhibit 2-5: OPTIONAL CHILD CARE FUNDS

Optional Funds and Requirements for Use

Federal Funds*		***State Funds***	
Source	**Requirements**	**Source**	**Requirements**
Temporary Assistance for Needy Families Block Grant (TANF)/Funds Transferred to CCDF	A state may transfer up to 30 percent of its federal TANF Block Grant to its Child Care and Development Fund each year. Transferred funds come under the rules and regulations of the CCDF and are treated as Discretionary Funds.	TANF/Child Care Maintenance of Effort (in addition to CCDF Maintenance of Effort)	States may count the same child care expenditures, based on historic Title IV-A spending for child care, toward both TANF and CCDF Maintenance of Effort requirements. States may also count additional state spending on child care toward TANF Maintenance of Effort, provided this spending is not included in the CCDF State Match. There is no limit on these expenditures.
TANF/Direct Expenditures	A state may also spend federal TANF funds for child care that are not transferred to the CCDF. There is no limit on these expenditures, which may be made whether or not a state transfers any TANF funds. According to final TANF regulations, an employed family's receipt of child care paid with direct TANF funds is not "assistance" and therefore does not count against a family's federal lifetime limit on TANF benefits.	Separate State Program/Child Care Maintenance of Effort (in addition to CCDF Maintenance of Effort)	States may count spending on some non-TANF child care programs toward TANF Maintenance of Effort. This may include spending in addition to that included in CCDF Maintenance of Effort. Receipt of child care paid with these funds does not count against a family's federal lifetime limit, whether or not the family is employed.
Title XX Social Services Block Grant (SSBG)	Historically used by many states to fund child care. PRWORA implemented gradual reductions in funding levels. Of the 30 percent maximum that states may transfer from its federal TANF Block Grant, up to 10 percent may be transferred to SSBG. (In federal fiscal year 2001, the maximum that states may transfer from federal TANF Block Grants will drop to 4.25 percent.)	General Revenue	States may appropriate funds for child care.
Title IV-E	May be used by states to fund for child care related to Child Protective Services.	Protective Services	States may appropriate funds specifically for child care for children in protective services and foster care.

* Other optional federal funds include Reallotted CCDF (states may apply for any CCDF funds unused by other states) and Food Stamp Employment and Training (funds used by states for the child care costs of legal aliens who must be employed or in a work activity in order to receive food stamps). One study state reported a small amount of Reallotted CCDF spending; another reported a small amount of Food Stamp Employment and Training spending.

Over the first three years of the Child Care and Development Fund, the majority of the study states made full use of their dedicated sources of child care funding. These states spent state funds at levels designed to meet the maintenance-of-effort and matching requirements to draw down the full federal share of their CCDF allocations.[21]

In addition to spending to draw down their dedicated federal funds for child care, states made increased use of the optional federal and state funds that they may choose to spend for child care. In FFY 1997 the study states made relatively sparing use of optional funding sources. The median percent of total child care spending derived from optional sources that year was just 16 percent. By FFY 1999, the median percentage of the much higher level of child care spending derived from these sources more than doubled, reaching 40 percent. (See Exhibit 2-6 and Appendix Tables 2-7a and 2-7b.)

Exhibit 2-6: USE OF OPTIONAL CHILD CARE FUNDS

Percent of Total Annual Child Care Spending Derived From Optional Federal and State Sources, federal fiscal years 1997-99

	FFY 1997	FFY 1998	FFY 1999
Range	0% - 56%	0% - 67%	4% - 81%
Median	16%	29%	40%

More states spent more from optional federal and state sources in FFY 1999 than in FFY 1997. In 1997, three of the 16 reporting states (Indiana, Louisiana, Virginia) spent nothing from optional sources, financing their child care subsidy systems entirely from the dedicated sources of funding included in the CCDF. By 1999 every reporting state made some use of optional funding. In 1997, only five states (California, Illinois, Massachusetts, Michigan, North Carolina) reported spending 20 percent or more from optional sources. By 1999, this number had increased to 14 states—eight of which spent more than 40 percent. Only one state (Texas) spent a smaller percentage in 1999 from optional sources. (See Exhibit 2-7 and Appendix Tables 2-7a and 2-7b.)

Growth in Optional Spending from States' TANF Block Grants

TANF Block Grants emerged as the key new optional source to cover the growth in child care spending in the study states between federal fiscal years 1997 and 1999. As welfare caseloads shrank, states reinvested significant amounts of their unspent federal TANF funds in child care. In 1997, only three states reported use of TANF funds for child care—either transferred to the CCDF or spent directly. By 1999, all 16 reporting states used TANF funds for child care. Similarly, in 1997 only one state (Massachusetts) drew more than 20 percent of its child care expenditures from its federal TANF Block Grant. By 1999, 12 states met more than 20 percent of their child care expenditures with TANF funds. (See Exhibit 2-8 and Appendix Table 2-8.)

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[21] While the funds included in the CCDF must be used for child care, the time frames for using them vary. Federal mandatory funds are available until expended, unless federal matching funds are requested. Matching funds are available provided the state obligates all of its mandatory funds by the end of the federal fiscal year and expends its required state maintenance-of-effort. Federal matching funds must be obligated by September 30 of the year in which funds are received; state matching funds must be obligated by September 30 to cover the state share of the federal unliquidated obligation. Obligations must be liquidated by September 30 of the following year. Federal discretionary funds must be obligated by September 30 of the fiscal year immediately following the fiscal year in which they were awarded. States must liquidate obligations within one year after the end of the obligation period.

Exhibit 2-7: USE OF OPTIONAL CHILD CARE FUNDS

Percentages of Total Annual Child Care Spending from All Optional Federal and State Sources, federal fiscal years 1997 and 1999.

Percent Spending from All Optional Sources	FFY 1997 Number of States	States	FFY 1999 Number of States	States
0 %	3	Indiana, Louisiana, Virginia	0	
Less than 10%	4	Alabama, Ohio, Texas, Washington	1	Texas
10% - 20%	4	Minnesota, New Jersey, New Mexico, Tennessee	1	Ohio
21% - 40%	2	Illinois, North Carolina	6	Alabama, Louisiana, New Mexico, Tennessee, Virginia, Washington
41% - 60%	3	California, Massachusetts, Michigan	6	Illinois, Indiana, Massachusetts, Minnesota, New Jersey, North Carolina
61% - 80%			1	California
More than 80%			1	Michigan

Exhibit 2-8: USE OF TANF FOR CHILD CARE

Percentages of Total Annual Child Care Spending from Optional Federal TANF Transfer and TANF Direct, federal fiscal years 1997 and 1999

Percent Spending from Optional Federal TANF (Transfer and Direct)	FFY 1997 States	FFY 1997 Transfer	FFY 1997 Direct	FFY 1999 States	FFY 1999 Transfer	FFY 1999 Direct
0%	Alabama					
	California					
	Illinois					
	Indiana					
	Louisiana					
	Minnesota					
	New Jersey					
	New Mexico					
	North Carolina					
	Ohio					
	Texas					
	Virginia					
	Washington					
Less than 10%				Texas	U	
11% - 20%	Michigan	U	U	Alabama	U	U
	Tennessee	U		California	U	U
				Ohio		U
21% - 40%				Illinois	U	U
				Louisiana	U	
				Minnesota	U	
				New Jersey	U	U
				New Mexico	U	
				North Carolina	U	U
				Tennessee	U	U
				Virginia	U	
				Washington	U	
More than 40%	Massachusetts	U		Indiana	U	U
				Massachusetts	U	U
				Michigan	U	U

Child care purchased with funds transferred from TANF into the CCDF is subject to CCDF health and safety regulations. Transferred TANF funds are also subject to the CCDF requirement to spend 4 percent on quality activities. Of the three states reporting use of federal TANF funds for child care in FFY 1997, two (Massachusetts, Tennessee) used only transferred TANF funds, and one (Michigan) used a combination of transferred and direct. In FFY 1999, of the 16 reporting states using TANF funds, six used only transferred TANF funds, nine used a combination of transferred and direct, and one (Ohio) used only direct.

Respondents in several states using direct TANF funds in 1999 indicated that their states became more willing to spend TANF funds directly on child care after final TANF regulations—published that year—held that receipt of these funds would not count against the lifetime limit for TANF benefits for working families.

States also anticipate that they will continue to make major use of transferred TANF funds. Most states that transfer TANF dollars into the CCDF discretionary pool do not spend them in the year in which they are transferred, since they have one year after transfer to obligate these funds and another year to spend them.

Optional Spending from Social Services Block Grant, Title IV-E, and Other Federal Sources

The number of states using optional federal funds from the Social Services Block Grant (Title XX) changed little over these years. The ten states that used SSBG funds for child care in 1997 still used these funds in 1999, joined by one state (California) that had not spent these funds in 1997. With smaller SSBG allocations available to them,[22] most study states spent fewer SSBG dollars for child care in 1999 than in 1997. Beyond California, only three states (Illinois, Tennessee, Washington) spent more. Moreover, by 1999, the proportion of child care spending derived from the SSBG had declined in every reporting state but two (California, Washington). In 1997 the highest proportion of total child care spending from SSBG was 26 percent in Michigan. In 1999, it ranged from less than 1 percent in five states to a high of 9 percent in one state (California).

Very modest use of Title IV-E was made by one state (Illinois) in FFY 1997 and four states (Illinois, Massachusetts, Michigan, North Carolina) in FFY 1999. One state (Texas) reported small expenditures of Food Stamp Employment and Training funds in both years, and another (Louisiana) reported spending a minor amount of re-allotted CCDF funds in FFY 1998. (See Appendix Table 2-8).

Steady Patterns of Optional Spending from State Funds

States' patterns of spending—or not spending—their own optional funds on child care held steady between 1997 and 1999. Fears were unrealized that states which historically had spent more than the required minimum on child care might scale back their commitments. Of the 11 states that reported using optional general revenue for child care in 1997, ten reported continuing to use optional state funds in 1999. Only one state (Washington) that had spent a tiny amount of its own money in 1997 spent none in 1999. The same five states (Indiana, Louisiana, Tennessee, Texas, Virginia) that spent no optional state dollars in 1997 also spent none in 1999. (See Exhibit 2-9 and Appendix Table 2-9.)

The states which had traditionally drawn a portion of their child care spending from optional state funds generally increased their spending from this source as their spending from all sources grew. Of the ten states spending optional state money in both years, only two (New Jersey, New Mexico) spent fewer dollars from this source in 1999. Thus, among states spending optional state funds, the range in proportions of total spending from this source was similar in the two years. In FFY 1997, the percentages ranged from under 10 percent in five states (Alabama, Massachusetts, New Jersey, Ohio, Washington) between 40 and 60 percent in one (California). Similarly, in FFY 1999, five states (Alabama, Massachusetts, New Jersey, New Mexico, Ohio) spent less than 10 percent and one (California) spent between 40 and 60 percent. (See Exhibit 2-9 and Appendix Table 2-9.)

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[22] As noted in Exhibit 2-5 above, PRWORA initiated gradual reductions in SSBG funding levels. During FFYs 1997-1999, states could increase available SSBG funds by transferring up to 10 percent of their TANF Block Grant into SSBG.

Exhibit 2-9: USE OF STATE GENERAL FUNDS FOR CHILD CARE

Percentage of Total Annual Child Care Spending from Optional State General Funds, federal fiscal years 1997 and 1999

Percent Spending from Optional State Funds	FFY 1997 Number of States	States	FFY 1999 Number of States	States
0%	5	Indiana Louisiana Tennessee Texas Virginia	6	Indiana Louisiana Tennessee Texas Virginia Washington
Less than 10%	5	Alabama Massachusetts New Jersey Ohio[2] Washington	5	Alabama Massachusetts[1] New Jersey New Mexico[2] Ohio[1, 2]
11% - 20%	4	Michigan[1] Minnesota New Mexico[2] North Carolina	2	Michigan[1] North Carolina[1]
21% - 40%	1	Illinois[1, 2]	2	Illinois[1, 2] Minnesota[1]
41% - 60%	1	California[1]	1	California[1]

[1] Includes allocation for TANF and/or Separate State Program Child Care Maintenance of Effort.

[2] Includes allocation for Child Protective Services.

In three states (California, Illinois, Michigan) in 1997 and seven states (California, Illinois, Massachusetts, Michigan, Minnesota, North Carolina, Ohio) in 1999, portions of the optional state funds were used to meet state maintenance-of-effort requirements for TANF or Separate State Child Care programs. Also, in three states (Illinois, New Mexico, Ohio) portions of the optional state funds in 1997 and 1999 were allocated specifically to child care for children connected to the child welfare system. (See Appendix Table 2-9.)

Spending for Activities to Enhance Quality

In addition to spending child care funds on direct child care services, the states all undertook an array of activities designed to improve the quality of child care. Child Care and Development Fund regulations require states to spend a minimum of 4 percent on quality activities from their aggregate allocations of federal Mandatory, Matching, and Discretionary funds (including those transferred from TANF) and state Matching funds.[23] Among the activities supported with these funds were training and education for child care practitioners, salary enhancements for teachers completing college courses, consumer education for parents, and Child Care Resource and Referral systems for practitioners, parents, and communities.[24] See Chapter Six for a full discussion of quality activities in the study states.

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[23] In addition to asking states to report amounts spent on quality activities from the dedicated funding of the CCDF, we asked them to report amounts spent on quality from optional funding sources.

[24] Tiered reimbursement rates, another way of supporting quality, are paid for with direct services funds.

Growth in States' Spending on Quality Activities

Growth in states' spending on child care quality activities paralleled the growth in states' total child care spending. Of the 16 states reporting, fifteen increased their spending for quality. Exhibit 2-10 shows the percentage change in quality spending for each of the states over the three years. Among the 15 states with growth in quality spending, increases ranged from a low of 10 percent in Minnesota to more than five-fold growth in Louisiana and Indiana. Seven of the reporting states saw growth greater than 100 percent between FFY 1997 and FFY 1999. (See Exhibit 2-10 and Appendix Table 2-10.) It is important to note that three of the states with more modest increases of 50 percent or less (Massachusetts, Minnesota, North Carolina) and the state with no growth (New Jersey) were those states that reported the highest adjusted per capita quality spending in 1997.[25] (See Exhibit 2-12 below and Appendix-Table 2-12.) The median rate of increase in spending on child care quality activities in the reporting states was 85 percent.

Exhibit 2-10: CHANGE IN QUALITY SPENDING

Percentage change in spending on quality, federal fiscal years 1997 – 1999

Percentage Change	Number of States	States
-12% - 0%	1	New Jersey
0% - 50%	4	Alabama, Massachusetts, Minnesota, North Carolina
51% - 100%	4	Ohio, Tennessee, Texas, Virginia
101% - 200 %	3	Illinois, New Mexico, Washington
201% - 400%	1	California
401% - 600%	3	Indiana, Louisiana, Michigan

Per Capita Growth in States' Quality Spending

To compare states' per capita expenditures for quality enhancements, we used a process similar to that used earlier to compare states' overall child care expenditures. As before, we first adjusted states' quality expenditures by their child care labor costs.[26] Then, we divided each state's adjusted quality expenditures by the number of children with employed parents. Because the CCDF expects quality expenditures to benefit all children in child care—subsidized and unsubsidized—we used the number of children of employed parents in this calculation, rather than the smaller number of children potentially eligible for child care subsidies under federal standards.[27]

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[25] Minnesota also had a significant one-time investment in quality spending in FFY 1998, reflected in Exhibit 6-1, Chapter Six. (Also see Appendix Table 2-10.) As Minnesota's experience indicates, state spending on quality activities—while increasing over time—is more likely than spending on direct services to have spikes and dips from year to year.

[26] Because there is no cross-sectional Consumer Price Index, it is necessary to use an index based on labor price differentials to adjust quality expenditures in the 25 study sites. Such an index could be constructed using the average hourly wage rate for various types of labor. Since there is no compelling argument for using one type of labor over another to construct this index, we elected to use the CCI (which is based on wage rates for child care workers) to adjust quality expenditures.

Quality spending per child of employed parents grew dramatically between federal fiscal years 1997 and 1999. As Exhibit 2-11 shows, the adjusted median per-child expenditure across the reporting states increased by 54 percent between FFY 1997 and FFY 1998 (from $5.07 to $7.81) and by another 46 percent between FFY 1998 and FFY 1999 (from $7.81 to $11.42). For FFY 1997, quality expenditures per child of employed parents in the 16 reporting states ranged from a low of just under $2 to a high approaching $16. By FFY 1999, the bottom and the top of the range of quality expenditures had shifted upward, to a low of more than $5 and a high of nearly $21.

Exhibit 2-11: PER CHILD QUALITY SPENDING

Adjusted Total Quality Spending per Child of Employed Parents, federal fiscal years 1997-99

	FFY 1997	FFY 1998	FFY 1999
Range	$1.95 — $15.73	$3.97 — $19.15	$5.42 — $20.85
Median	$5.07	$7.81	$11.42

Some states' relative positions on per capita quality spending changed a great deal between 1997 and 1999. Others' did not. For example, Indiana and Louisiana went from being two of the states with relatively low spending per child of employed parents in 1997 to being two of the states spending the most in 1999. On the other hand, Massachusetts, Minnesota, and North Carolina, were examples of three states that ranked relatively high in per-child spending in both years. (See Exhibit 2-12 and Appendix Table 2-12.)

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[27] The estimated number of children of employed parents is the result of a simulation model estimate conducted by the Urban Institute using data on income, employment, and disability status from the combined March 1996, March 1997, and March 1998 Current Population Surveys, which cover calendar years 1995 - 1997. We used these estimates in the absence of data on children in all forms of child care.

Exhibit 2-12: PER CHILD QUALITY SPENDING

Adjusted Annual Quality Spending per Child of Employed Parents, federal fiscal years 1997 and 1999

Adjusted Annual Quality Spending per Child of Employed Parents	Number of States 1997	States 1997	Number of States 1999	States 1999
Up to $3	4	California, Indiana Michigan, New Mexico	0	
$3 - $6	6	Illinois, Louisiana, Ohio, Virginia, Texas, Washington	1	Virginia
$6 - $9	3	Alabama, New Jersey, Tennessee	4	New Jersey, New Mexico, Ohio, Washington
$9 - $12	2	North Carolina, Minnesota	3	Alabama, California, Texas
$12 - $15	0		5	Illinois, Indiana, Michigan, Minnesota, North Carolina
$15 - $18	1	Massachusetts	1	Tennessee
$18 - $21	0		2	Louisiana, Massachusetts

States' Quality Spending Above Child Care and Development Fund Minimums

To further compare state commitments to quality, for each year we also calculated each study state's annual quality spending—if any—above 4 percent of its aggregate spending from federal Mandatory, Matching, and Discretionary funds (including those transferred from TANF), state Matching funds, and from the former Child Care and Development Block Grant. This calculation closely mirrors the CCDF minimum requirement for quality spending.[28] We then adjusted each state's quality expenditures in excess of 4 percent by its child care labor costs, before dividing them by number of children of employed parents in the state.

Of the 16 states reporting, five did not exceed 4 percent spending from the required CCDF sources for quality activities in FFY 1997. Two of the states spent no more than 4 percent in 1999. (See Exhibit 2-13 and Appendix Table 2-13.)

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[28] The CCDF's 4-percent minimum requirement applies to these allocations only at the end of their multi-year liquidation periods; it does not apply to each year's spending. All the study states reported spending at least the minimum required on quality within the liquidation periods. Also, the Child Care and Development Block Grant required that a slightly higher percentage be spent on quality. Because some states reported combined "old" CCDBG and "new" CCDF funds, we estimated the required minimum for quality conservatively as 4 percent of both.

Exhibit 2-13: ADDITIONAL STATE SPENDING ON QUALITY INITIATIVES

Adjusted Quality Spending beyond Minimum Required by Child Care and Development Fund, per Child of Employed Parents, federal fiscal years 1997 and 1999

No Spending over Minimum		Spending over Minimum	
FFY 1997	**FFY 1999**	**FFY 1997**	**FFY 1999**
California	New Mexico	Alabama	Alabama
Indiana	Virginia	Illinois	California
Michigan		Louisiana	Illinois
New Mexico		Massachusetts	Indiana
Virginia		Minnesota	Louisiana
		New Jersey	Massachusetts
		North Carolina	Michigan
		Ohio	Minnesota
		Tennessee	New Jersey
		Texas	North Carolina
		Washington	Ohio
			Tennessee
			Texas
			Washington

States' Quality Spending as a Percentage of Their Total Child Care Spending from All Sources

Finally, we looked at states' spending on quality as a percentage of all their child care spending—from dedicated and optional, federal and state sources. Even from this broader perspective, spending on quality activities kept pace with the overall growth in child care spending between 1997 and 1999. In fact, the proportion of all expenditures spent on quality activities generally edged upward—even though in 1999 no state reached Minnesota's 1997 level of nearly 9 percent. In FFY 1997, two states spent less than 2 percent on quality activities. By FFY 1999, every reporting state was spending at least 2 percent. Also, while nine states were spending 3 percent or more in 1997, by 1999 thirteen states were spending over 3 percent. In both years, seven study states were spending at least 4 percent of all their child care expenditures—not simply expenditures from the required portions of the CCDF—on quality activities. (See Exhibit 2-14 and Appendix 2-14.)

Exhibit 2-14: CHILD CARE QUALITY EXPENDITURES

Quality Expenditures as Percentage of Spending from All Sources, federal fiscal years 1997 and 1999

Percent of Total	FFY 1997 Number of States	States	FFY 1999 Number of States	States
Less than 2%	2	California, Michigan		
2% - 3%	5	Illinois, Indiana, New Mexico, Virginia, Washington	2	California, Virginia
3% - 4%	2	North Carolina, Ohio	7	Illinois, Michigan, Minnesota, New Jersey, New Mexico, North Carolina, Washington
4% - 5%	4	Louisiana, Massachusetts, Tennessee, Texas	3	Alabama, Massachusetts, Ohio
5% - 7%	2	Alabama, New Jersey	4	Indiana, Louisiana, Tennessee, Texas
7% - 9%	1	Minnesota		

* * *

Setting annual expenditure levels for subsidized child care and selecting from among the mix of available funding sources to support that spending are among states' fundamental child care policy decisions. A closely related set of decisions centers on the allocation of the available resources. Chapter Three examines the ways study states have responded to the growing demand for child care subsidies from low-income families—both current and former TANF recipients and those with no TANF history.

Chapter Three: Meeting the Demand for Child Care Subsidies

Chapter Three discusses trends in the use of child care subsidies in the three-year period following the passage of PRWORA and the degree to which states were able to meet the demand for subsidies. The chapter describes how the 17 states in the study allocated the increased subsidy funding described in Chapter Two to meet the needs of families who were receiving or had formerly received TANF, and of non-TANF families. It also describes and compares the major policies–eligibility guidelines, parental co-payments, and payment rates—used by states in decisions related to serving as many children as possible and enabling families to access child care that meets their needs.

Summary of Findings

- **In the two-year period following the implementation of the PRWORA, states provided child care subsidies to many more children**. Twelve of the 15 states reporting data for 1997 and 1999 experienced over 30 percent growth in the number of children receiving subsidies.

- **In many states the dramatic growth in the number of children receiving child care subsidies was largely supported by states' use of TANF funds.** Without these funds, it is not clear how much child care subsidies would have expanded. Equally unclear is the likelihood of continued expansion in subsidies, without additional federal funds. It is also unclear how the current levels of subsidy use will be sustained if excess TANF funds are unavailable in the future, or if available funds are needed to provide a wider range of services.

- **Despite the great increase in the number of children receiving subsidies, on average states in the study served only 15 to 20 percent of federally-eligible children in April 1999, and no state served more than 25 percent.** In fact, there were waiting lists of families who requested but did not receive subsidies in 12 of the 17 states.

- **States were able to meet the demand for child care for families who were receiving TANF.** Over the three-year period following welfare reform, an increased *proportion* of children receiving TANF received child care subsidies. However, declines in the overall TANF caseloads meant that in many states the *absolute number* of children on TANF who received subsidies was less than expected.

- **Most of the growth in child care subsidies was accounted for by children in families who had left TANF or who had never received it.** While it is impossible to differentiate between families that had received cash assistance in the past and those who had never received it, it is clear that, in 1999, a larger proportion of non-TANF families used subsidies than in 1997.

- **The states in the study varied in their approach to balancing the child care needs of families who had transitioned off TANF and those who had either never received or had not recently received TANF.** In all 17 states, TANF families, were either guaranteed subsidies or had a high priority for them after they left TANF, if their incomes remained low enough to make them eligible. This was the case even after a period of Transitional Child Care, if one existed, had expired. Four of the 17 states in the study made a commitment to serve all families who were eligible for subsidies, regardless of TANF status. Of the non-TANF children who were receiving subsidies, it is unclear what proportion had at an earlier time received TANF.

- **States made different trade-offs in establishing eligibility limits, parent co-payments, and payment rates.** States took a variety of approaches to establishing eligibility criteria, amount of parent co-payment required, and the level of payment to providers. There were no clear patterns related to these three policies among the states.

Child Care Subsidy Use

Chapter Two demonstrated that most of the states in the study have experienced significant growth in expenditures for child care since the passage of the 1996 legislation. These increased expenditures are reflected in an equally significant growth in the numbers of children who receive subsidies. We asked the states to provide figures for April in the years 1997, 1998, and 1999. (The figures reported by the states for 1998 were slightly different from, but comparable to, those published by the Department of Health and Human Services in a recent report entitled "Access to Subsidized Care for Low-Income Families." (The footnote provides a more complete description of the differences[29])

Exhibit 3-1 shows that, from April 1997 to April 1999, 12 of the 15 states that reported subsidy enrollments in April 1997 and April 1999 experienced over 30 percent growth in the number of children receiving subsidies. Five of the states experienced growth of over 90 percent. Only two states (Ohio and Tennessee) experienced marginal growth. (State-by-state total child care enrollments and rates of growth are shown in Appendix Table 3.1.)

Exhibit 3.1 describes the general growth in the number of children served by all sources of subsidies. The next step is to see how that growth affected the proportion of potentially eligible children who were being served (the subsidy take-up rate). For 1997 and 1999, we estimated the number of children under age 13 living in families with incomes below 85 percent of state median income, with all parents in the household employed, as well as all children under age 19 with disabilities.[30] Exhibit 3-2 shows that, between April 1997 and April 1999, the proportion of children receiving subsidies increased significantly in almost all of the study states. In 1997, eight states provided subsidies to less than 10 percent of the federally-eligible children in their states.[31] Of those with the highest subsidy usage rates, none were over 20 percent. By 1999, only two states (New Jersey and Texas) had usage rates under 10 percent and four states (Illinois, Massachusetts, Michigan, and North Carolina) had rates over 20 percent. During this period, eight of the fifteen states that reported subsidy utilization increased their take-up rates by over 50 percent. (For state by state information on the proportion of federally-eligible children receiving subsidies, see Appendix Table 3.2.)

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[29] The numbers of children receiving child care subsidies were provided directly to the researchers by the states participating in the study. The numbers of children served may differ slightly from, but are comparable to those reported in the recent report, "Access to Subsidized Care for Low-Income Families," by the US Department of Health and Human Services for two reasons. First, in this report, states were asked to include all children served by subsidies, from all sources of funding. Secondly, for some states, the DHHS report estimated the number of children receiving subsidies based on information on a sample of families submitted by the state as part of its routine federal reporting requirements. For this study, when an estimate was required, it was made by the state and it may have differed from the federal estimate. Finally, DHHS numbers represent a monthly average over a year, rather than for a single month.

[30] The number of federally-eligible children was estimated by the Urban Institute using a simulation model and data on income, employment, and disability status from the combined March 1996, March 1997, and March 1998 Current Population Surveys, which cover calendar years 1995 - 1997.

[31] These estimates differ from those in *Access to Subsidized Care by Low-Income Families*. See footnote 29 for more information.

Exhibit 3-1: INCREASE IN SUBSIDY USE

Percentage Increase in Number of Children Receiving Child Care Subsidies
April 1997 to April 1999

Percentage Change	Number of States	States
Less than 31%	3	North Carolina, Ohio, Tennessee
31% - 60%	4	Alabama, Massachusetts, Minnesota, Washington
61% - 90%	3	Illinois, Michigan, New York
91% - 120%	2	Indiana, Virginia
121% - 150%	1	New Mexico
151% - 180%	2	Louisiana, Texas

* California and New Jersey did not supply sufficient data.

Exhibit 3-2: INCREASE IN POTENTIALLY-ELIGIBLE CHILDREN SERVED

Percentage of Federally-Eligible Children Participating in Subsidized Child Care*
April 1997 and April 1999

Percentage Federally-Eligible Children Receiving Child Care Subsidies	April 1997 Number of States	States	April 1999 Number of States	States
Less than 10%	8	Alabama, Indiana, Louisiana, Minnesota, New Mexico, New York, Texas, Virginia	2	New Jersey, Texas
10% - 15%	5	Illinois, Ohio, Michigan, Tennessee, Washington	5	Alabama, Indiana, Minnesota, New Mexico, Ohio
16% - 20%	2	Massachusetts, North Carolina	5	Louisiana, New York, Tennessee, Virginia, Washington
21% - 25%	0		4	Illinois, Massachusetts, Michigan, North Carolina

* California did not supply data for April 1997 or April 1999. New Jersey did not supply data for April 1997.

It is unclear how the estimate of the number of children *eligible* for subsidies relates to the *actual demand* for subsidies. For instance, research indicates that a significant number of families have a strong preference that their children be cared for by a parent while the other is working and adjust or reduce work hours to make this possible.[32] Readily accessible subsidies, making other alternatives affordable, may affect some of these families' preferences. Presumably, however, at least some of these families would choose to continue this practice even if subsidies were readily accessible. In addition, research, as well as widely-held beliefs among the key informants in this study, suggest that the stigma associated with government support means that some eligible families will never apply for subsidies, even when child care assistance would clearly be beneficial.

There are other reasons why eligible families would not demand subsidies, even if they were readily accessible and could be used to pay for the child care of their choice. Some of the state-level key informants have pointed out that children who are eligible and not receiving child care subsidies may be enrolled in school or other early childhood programs, such as Head Start or state prekindergarten programs, during the hours that both parents work. Therefore, to the extent that the early childhood program supports parents' work, these children would not need subsidies. It is important, however, to recognize that many other children in school or preschool programs may need additional child care because their parents' work schedules do not coincide with school and preschool schedules. The federal Department of Health and Human Services and many states have been encouraging partnerships between Head Start, prekindergarten, and child care programs to meet these families' needs. (A subsequent report of the National Study of Child Care for Low-Income Families will focus on this topic.)

On the other hand, if subsidies were available and easily accessible, some two-parent families in which only one parent works, and single-parent families where the parent does not work, could choose to accept subsidies so that the second parent could work as well. Children from this latter group of families are not counted in the estimate of federally eligible-children because all parents in the household were not working.

While it is not clear how many eligible families would apply for subsidies if they were readily accessible, it is clear that, in the states in this study, the vast majority of potentially eligible families did not receive them. In 12 of the 16 states reporting their child care subsidy utilization, fewer than 20 percent of eligible children received subsidies. In no state did more than 25 percent of eligible children receive subsidized child care.

Waiting Lists for Child Care Subsidies

Despite the dramatic growth in subsidy use in most of the study states, twelve of the 17 states in the study were unable to provide child care subsidies to all eligible families that requested them. In these states, either the state or the community agency placed children on waiting lists.[33] (See Exhibit 3-3.)

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[32] See Burstein and Hiller, *"Review of the Literature on Determinants of Child Care Choices,"* Abt Associates Inc., Summer 1999.

[33] An additional state, Louisiana, had a waiting **period** for subsidies, although there was no waiting list. The state is committed to meeting all requests for child care assistance from subsidy-eligible families and, technically, 100 percent of eligible applicants receive subsidies. However, key informants reported that an administrative backlog in the spring of 1999 resulted in a three- to six -month waiting period before subsidies were received.

Exhibit 3-3: WAITING LISTS

Existence of Waiting Lists for Child Care Subsidies
June 1999

	Waiting list in at least one local area in the state	**All eligible families that request subsidies are served**
# of states	12	5
	Alabama, California, Indiana, Massachusetts, Minnesota, New Jersey, New York, North Carolina, Ohio, Tennessee, Texas, Virginia	Illinois, Louisiana, Michigan, New Mexico, Washington

In most of the states, the reason for the existence of waiting lists was that available funds were insufficient to serve all eligible families that requested subsidies. In some cases, the state's allocation of funding between groups of families eligible for subsidies, or among areas within the state, was also a factor in the creation of waiting lists. In some states, there were waiting lists in some areas, but excess funds available in other parts of the state. Similarly, while waiting lists were always composed of non-TANF families, in some states there were excess funds available for TANF families.

The existence of waiting lists indicates excess demand for child care subsidies, but the lists cannot be used to arrive at a firm estimate of the demand because of differences in the way states and counties compile and maintain practices for waiting lists, as well as differences in their dynamics. Some of the communities or states in the study periodically re-contact families on the waiting list and require them to return a form indicating that they are still interested in child care assistance in order to continue to be on the waiting list. Those who do not reply are removed from the list. Other states and communities do not have this practice and some do not periodically "clean" the list.

In addition, the pattern of growth or stagnation of the waiting list appears to be, in part, related to eligible families' knowledge about the availability of child care subsidies and belief in the possibility that they might receive a subsidy in time for it to be beneficial. In several states with waiting lists, including Massachusetts, Minnesota, and Texas, state and local key informants described a pattern of movement onto waiting lists that might seem counter-intuitive if one does not take this explanation into account. When funds for subsidies are scarce, few families are added to the waiting list. When subsidy funding increases, the number of families on the list is reduced temporarily and then, over time, builds back up to and beyond the previous level. As an example, in 1998, in Hennepin County, Minnesota, funding was increased to eliminate a long waiting list that had remained stable over a two-year period. Briefly, there was no waiting list, but then, within a short time, a surge in new applications resulted in a waiting list that was longer than before. This suggests that the demand for subsidies, were they readily available, would be much greater than the number of families actually on a waiting list at any given time.

Meeting the Demand for Subsidies for Families on TANF

With the passage of federal welfare reform, many state and local policymakers expected that the TANF program's emphasis on work would significantly increase the demand for child care subsidies on the part of those receiving cash assistance. However, key informants in the majority of the counties and states in the study reported that these aspects of welfare reform did not have the expected impact. Instead, TANF caseloads dropped significantly in the 17 states in the study, as they did nationally. This caseload drop was a major reason why the initial effects of welfare reform on the need for and use of child care subsidies for families on TANF were somewhat different from what was anticipated and planned for in many of the states and communities in the study. The decrease meant that, even though a higher proportion of children on TANF were receiving subsidies in 1999 than were in 1997, the absolute number of children on TANF and using subsidies was less than expected. This section briefly describes TANF caseload trends and their effect on the use of child care subsidies. It also describes how considerations directly related to welfare reform influenced some child care policy decisions.

TANF Caseload Trends

In many of the study states, the decrease in TANF caseloads was substantial. Thirteen of the 17 states in the study reported TANF caseload information for both 1997 and 1999. Seven of these 13 states, experienced a greater than 30 percent decrease in caseload. In three of these states (Alabama, Michigan, and New Jersey), caseloads decreased by over 40 percent. (See Exhibit 3-4 for summary information and Appendix Table 3.3 for state-by-state information.)

Exhibit 3-4: TANF CASELOAD DECREASES

Percentage of Change in Number of TANF Recipients 1999 - 1997

% Decrease in Number of TANF Recipients, 1997 – 1999	Number of States	States
Less than 10%	2	Minnesota, New Mexico
10% - 20%	1	Tennessee
21% - 30%	3	California, New York, Virginia
31% – 40%	3	Massachusetts, Texas, Washington
41% - 50%	4	Alabama, Illinois, Michigan, New Jersey

- Data were not available for Indiana, Louisiana, North Carolina, and Ohio.

Trends in Numbers of Children on TANF Cash Assistance Receiving Subsidies

The states that reported sufficient data demonstrate that the ***proportion*** of children receiving TANF ***and*** child care subsidies did indeed increase in the two-year period. Data reported for 10 of the 17 states make it possible to determine the percentage of the TANF child caseload that received subsidies in either April 1997, April 1999, or both years. Exhibit 3-5 shows that many states served a significantly higher percentage of the TANF child caseload in 1999 than in 1997. This percentage is calculated somewhat differently here than it is by states. To facilitate cross-state comparison, it takes into account ***all*** children on TANF, while states calculate the use of subsidies according to the number of parents with earnings or who are eligible for subsidies by virtue of their participation in welfare-to-work programs. (Because welfare to work programs differ greatly, children from similar families would be included in some states and excluded in others if we were to apply each state's estimates instead of using the total number of children on TANF.) Presumably, the growth in the percentage of children on TANF receiving subsidies is parallel to the increase in the number of parents who are employed or in an employment program and who continue to receive TANF.

Exhibit 3-5 shows that, in April 1997, in six of the nine states that reported caseload data for child care subsidies *and* TANF cash assistance, less than 10 percent of TANF children received a subsidy for child care. (Many TANF children presumably had parents who were neither working nor engaged in a work or training activity.) In April 1999, of the 11 states reporting sufficient data for that period, Alabama, New Jersey and Texas were the only states that provided subsidies to less than 10 percent of the TANF caseload. (See Appendix Table 3.4 for state-by-state details.)

When we look at the use of child care subsidies for *all* federally-eligible families, regardless of TANF status, in the two year period, the picture is somewhat different. Although the *percentage* of children receiving both TANF and child care appears to have increased in many of the states and communities in the study, because of the TANF caseload decline, TANF children as a proportion of *all* children receiving subsidies often decreased in the two-year period. Exhibit 3.6 shows that, in 9 of the 13 states that provided data on usage, the proportion of families using subsidies who were also on TANF dropped sufficiently to move the state into a lower percentage category between 1997 and 1999. Of the four remaining states, as shown in Appendix Tables 3.5 and 3.6, New York and Minnesota were the only states where the proportion of children receiving subsidies who were also on TANF cash assistance actually ***increased*** between 1997 and 1999.

Exhibit 3-5: TANF CHILDREN RECEIVING SUBSIDIES

Percentage of Children on TANF
Who were Receiving Child Care Subsidies
April 1997 and April 1999

Percentage of TANF Children	April 1997 Number of States	States	April 1999 Number of States	States
Less than 10%	6	Alabama, Michigan, Minnesota, New Jersey, New York, Texas	3	Alabama, New Jersey Texas
10% - 15%	1	Illinois	3	Michigan, Minnesota, New Mexico
16% - 20%	0		1	New York
21% - 25%	1	Tennessee	2	Louisiana, Tennessee
26% - 30%	1	Virginia	2	Illinois, Virginia

* For 1997, data was either not supplied or unavailable from California, Indiana, Louisiana, Massachusetts, New Mexico, North Carolina, Ohio, and Washington. For 1999, data was either not supplied or unavailable from California, Indiana, Massachusetts, North Carolina, Ohio, and Washington.

Key informants in some communities did describe an increased demand for child care subsidies that resulted from welfare-to-work activities in a specific a community or for children of a given age. For example, key informants in Union County, New Jersey, reported that, when work requirements went from 20 to 35 hours per week, the county experienced a significant increase in the demand for school-age care in the low-income communities of Plainfield and Elizabeth.

Minnesota provides one of the few examples of an increase in child care for welfare recipients that resulted from the state's program of welfare reform. In January 1998, the state converted its AFDC caseload to the Minnesota Family Investment Program (MFIP), an approach that enables families to combine earnings with cash assistance. MFIP integrates the Food Stamp program and TANF into one eligibility calculation; as a result, families do not become completely ineligible for some assistance until they reach 120 percent of the federal poverty threshold. Before the conversion, caseloads declined from 1994 (64,000) to 1998 (45,000) but, once eligibility limits effectively increased, caseloads stabilized. Because a significant percentage of families were working and receiving cash assistance, the percentage of the child care subsidy caseload in Minnesota that was receiving MFIP went up 53 percent between 1997 and 1999.

Exhibit 3-6: TANF AND NON-TANF CHILDREN RECEIVING SUBSIDIES

TANF Children Receiving Child Care Subsidies as a Proportion of all Subsidized Children April 1997 and April 1999

TANF Children as a Percentage of Total Subsidy Caseload	April 1997 Number of States	States	April 1999 Number of States	States
10 – 15%	0		2	Alabama, North Carolina
16% - 20%	1	Alabama	2	Texas, Massachusetts
21% - 25%	1	North Carolina	2	Michigan, Ohio
26% - 30%	4	Massachusetts, Michigan, Minnesota, Texas	2	New Mexico, New Jersey
31% - 35%	1	Louisiana	1	Louisiana
36% - 40%	1	Ohio	3	Illinois, Minnesota, Washington
41% - 45%	2	Illinois, Washington	1	Tennessee
More than 45%	3	New York, Tennessee, Virginia	2	New York, Virginia

* For 1997, data was either not supplied or unavailable from California, Indiana, New Jersey, and New Mexico. For 1999, data was either not supplied or unavailable from California and Indiana.

Effects of Welfare Reform on Child Care Planning

Although welfare reform did not have the expected direct impact on the demand for child care for families receiving TANF, it did have other unanticipated effects in the study states. Key informants throughout the states and communities reported that the most important way that welfare reform affected child care planning was by increasing other policymakers' awareness of the importance of child care. In Massachusetts, Minnesota, New Mexico, Ohio, and Virginia, informants said that welfare reform brought child care to the forefront of discussions about welfare policies. This increased visibility of child care as an essential support for employment in low-income families also meant that, in some states, decisions previously made or greatly influenced by state child care administrators were now made by governors' offices or legislatures. These decisions include maximum eligibility limits, family co-payments, and child care market rates, which more frequently appeared in state legislation. For instance, in Washington and Minnesota, eligibility limits and co-payment scales are now set by the legislature and incorporated into the reauthorizing legislation. In addition, in Minnesota, child care payment rate rules are a matter of law.

Meeting the Needs for Child Care Assistance of Families No Longer on TANF or Who Never Received TANF

In all of the 17 states, all of the TANF families were served who applied for and were eligible for subsidies. An area of significant policy discussion and debate involved approaches to serving *other* eligible families: those transitioning off TANF, and those whose incomes made them eligible for subsidies but who were never or no longer considered to be "transitioning off" TANF. The lack of sufficient funds in the majority of the 17 states meant that policymakers needed to make choices about which families would be served, and often did so by giving priority to former TANF recipients.

Cross-State Comparisons Among Eligibility Groups

Complicating this discussion is the reality that each state's TANF cash assistance program is unique in terms of grant amounts, the degree to which families are able to combine earnings and financial assistance, and time limits. In addition, states also took different approaches to providing subsidies to families that left TANF. In some cases, these families were in a formal Transitional Child Care Program modeled after the federal program in place prior to PWRORA. In some cases, there was no such formal program, although the state policy was that families leaving TANF who remained eligible for subsidies would continue to receive them. As a result, a family of the same size and income level could be considered a TANF family in one state, a "transitioning" family in another state, and a "working poor" family in a third. Such program differences make cross-state comparisons between the three groups very difficult.

Adding to the difficulty of making cross-state comparisons between groups is the absence of adequate data. In many states, it is impossible to know, for instance, how many families in the "working poor" eligibility pool and receiving subsidies were originally families who came into the subsidy system while they were receiving TANF. Families often move from one eligibility status for subsidies to another; however, the data systems provide a point-in-time picture and do not track the particular pathways by which families currently receiving subsidies first accessed them. While policymakers at the state and community levels might suspect that the only way for families to receive subsidies is to first receive TANF, there is no way to document this trend with available data.

States chose one or more strategies to meet the needs of families who formerly or never received TANF assistance. One strategy was to assert a commitment to serve all eligible families; a second was to protect recent welfare leavers enabling them to continue to receive subsidies as long as their income made them eligible; and a third was to provide child care for families who did not receive cash assistance as a result of a formal diversion program.

Commitment to Serving All Eligible Families that Apply for Subsidies

In part to avoid equity issues between families receiving or moving off TANF and other working families, four of the states in the study (Illinois, Louisiana, Michigan, and Washington) either articulated a formal commitment or allocated sufficient funds to serve all eligible families that applied for child care assistance. In Illinois and Washington, eligibility was based solely on income, with no regard to TANF status, with the exception of families on TANF with no earnings but required to participate in work activities. An additional state, Louisiana, also had a formal commitment to serve all eligible families but, in the summer of 1999, key informants reported a waiting period of three to six months for subsidies because of administrative backlog, an issue that will be discussed further in Chapter Four.

Key informants in all four of these states and communities cautioned, however, that formal and informal methods were used to limit the demand for subsidies. For instance, when establishing its new eligibility criteria, Illinois reduced the maximum eligibility limit. In Michigan, key informants pointed out that, although all eligible families that requested subsidies were served, the child care subsidy program's priority was the child care needs of families on TANF, and that administrative systems were designed to meet these families' needs most readily. (This issue also will be discussed further in Chapter Four.) State and community-level key informants in Washington noted that concern about potential unmanageable increases in requests for subsidies made the state cautious about widely advertising their availability, although plans were underway in the near future to do more outreach to potentially-eligible families.

Even with these caveats in mind, it is important to note that all four states with a commitment to serve all eligible families served relatively high proportions of federally-eligible children compared with other states in the study. (See Exhibit 3.2.)

Retain a Priority for TANF Families After They Leave TANF

In the 13 states that did not have a commitment to serve all eligible families that requested subsidies regardless of TANF status, families who had formally received TANF remained in a high priority group, as they entered a transitional program, if one existed, and after the transitional period was over. (Administrative procedures, to be discussed in Chapter Four, also may facilitate or limit the ability of families to receive subsidies as they move from one eligibility category to another.)

Exhibit 3-7 shows that, of the 13 states without a commitment to serve all eligible families requesting subsidies, only North Carolina eliminated its Transitional Child Care program. In 4 of the remaining 12 states, families could continue to receive TCC for more than twelve months. In virtually every one of the states, including North Carolina, families that recently moved from TANF or transitional status to the income-eligible category were either a high priority for subsidies or, in effect, had a guarantee of child care assistance as long as they remained income-eligible. In many of these states, TCC should not be considered a separate program; it is, rather, a priority status to ensure that families will get child care services.

In at least two states, however, as a result of funding shortages states were not always able to meet their goals for serving families that leave TCC and remain eligible for subsidies. Key informants in Indiana and Virginia reported that families whose time period for TCC had ended were likely to be placed on waiting lists. In addition, informants in Virginia reported that, at times in 1997, even some families eligible for TCC were placed on waiting lists.

Child Care Subsidies for Families Diverted from TANF

Another strategy that some states pursued was to offer child care assistance, often as part of a package of supports and one-time payments, instead of enrolling people in the TANF cash assistance program. As part of their TANF programs, ten of the 17 states established a formal "diversion" program or something similar, designed to give families one-time payments or a package of services in lieu of receiving cash assistance. Often these diversion programs stipulate that families will, as a consequence of receiving the lump sum, be ineligible for additional TANF assistance for a fixed time

Exhibit 3-7: CHILD CARE SUBSIDIES AFTER TANF

Policies on movement from TANF-related eligibility to income-related eligibility
June 1999

TCC/Post TANF Programs	Number of States	State Names
States With No Time Limit for Any Low-Income Families	4	Illinois, Louisiana, Michigan, Washington
States Without TCC Status or Program	1	North Carolina
States With 12-Month TCC Status or Program	8	Alabama, Indiana, Minnesota, New Mexico, New York, Ohio, Texas, Virginia
States With TCC Status or Program Longer Than 12 Months	4	California, Massachusetts, New Jersey, Tennessee

period. Exhibit 3-8 shows the study states that have diversion or similar programs. In nearly all of the states with diversion programs, "diverted" families receive the same priority status for child care subsidies as families in the transitional child care program.

Key informants in local welfare offices in states with diversion programs, including California, Minnesota, and New Jersey, indicated that they were reluctant to place families in these programs. They felt that often families' situations were insufficiently stable to ensure that they would not need cash assistance for the period they were required to forego it.

Exhibit 3-8 DIVERSION FROM TANF

Presence of a TANF Diversion Program
June 1999

TANF Diversion Program	Number of States	States
Yes	10	California, Illinois,* Indiana, Minnesota, New Jersey, North Carolina, Ohio, Virginia, Texas, Washington
No	7	Alabama, Louisiana, Massachusetts, Michigan, New York, New Mexico, Tennessee

* Illinois does not have a formal diversion program; however, it does have an "up-front" help program, often connected to local not-for-profits, aimed at providing assistance to working poor families with one-time, short-term problems. Without such assistance, some or all of these families might lose their jobs and be forced onto TANF.

Although, as stated earlier, a significant number of children from income-eligible families received child care assistance, informants in many states believe that, given the waiting lists for subsidies, the surest pathway into the income-eligible pool is through first receiving TANF. In Indiana, for example, local key informants believed that an emphasis on helping TANF and Transitional families has almost totally excluded the "working poor." Because Indiana's caseload data do not distinguish TANF or former TANF recipients, it is difficult to substantiate this perception.

Outreach and Notification About Subsidies for TANF and non-TANF Families

Key informants believed that eligible families' knowledge about subsidies was an important factor in determining whether or not they received subsidies, funding limitations aside. In most of the study's states and communities, key informants reported limited outreach to the public about the availability of subsidies for non-TANF families. By contrast, nearly all key informants interviewed in the majority of communities had the impression that TANF families were adequately informed about the availability of subsidies. (The key informants included staff from welfare and subsidy offices, child care resource and referral agencies, advocacy groups, and others who were considered leaders in child care in the communities.)

Given the limited outreach to non-TANF families, key informants in many states believed that a high proportion of non-TANF, working poor families who were receiving subsidies had, at one time, received TANF. Families that had recently been "in the system" were most likely to be aware of the availability of subsidies and were most likely to apply, particularly in those states and communities where all families accessed subsidies through the local welfare offices (discussed in Chapter Four).

Limiting outreach to non-TANF families did not reflect a preference to serve former TANF families. Rather, in many counties without a commitment to serve all eligible families, informants felt that outreach was unnecessary and, perhaps, unfairly raised people's hopes, because there were already families on waiting lists. They believed that lack of sufficient funds, rather than a lack of awareness, was the significant barrier for non-TANF families. In many counties with a commitment to serve all eligible families, there was little or no outreach because state and local staff feared that it would create a demand they could not meet.

New Jersey and, within the state, Union County, are examples of a state and community that make concerted efforts to inform TANF and transitioning families about subsidies but make fewer efforts for non-TANF families. New Jersey engages in extensive outreach to inform TANF families of their eligibility. A recent study by Legal Services of New Jersey found that 90 percent of Work First New Jersey recipients were aware of available child care subsidies. It was a surprise to the state officials we interviewed that even 10 percent were unaware, because they promote child care subsidies so intensively within their local welfare offices. The non-TANF program, New Jersey Cares for Kids, was heavily promoted in 1992 when it was launched, but is currently publicized only informally through word of mouth.

Key informants in some of the study communities, however, reported concerted efforts to let income-eligible families and families transitioning from welfare know about the availability of subsidies. In Orange County, New York, the child care resource and referral agency (CCR&R) provides information about subsidies through individual consumer education as well as outreach to community agencies and organizations. For instance, the state's child care brochure, publishing the CCR&R's phone number, was sent home with children's school report cards. In addition, staff from the County Department of Social Services take every opportunity to mention the availability of subsidies at all speaking engagements and radio shows.

Many informants pointed out that, even without concerted outreach efforts, families find out about child care subsidies through word of mouth or through their current child care providers. In some communities, where a high percentage of licensed child care providers receive subsidies, it seems plausible that low-income families that use licensed child care are likely to be told about child care subsidies by their provider.

The dynamics of waiting lists in some communities suggest that there exists at least some public knowledge of child care subsidies, independent of any state or local outreach. As described earlier, the waiting lists in many counties tend to be stagnant at times when there are no subsidies available and grow at times when they are more available.

It is important to note that key informants in many study counties recognized that, even in places where there were efforts to let families know about subsidies, many TANF and non-TANF families either had misconceptions or incorrect information about the program. For instance, in Orange County, New York, key informants stated that there still is a belief that families must be receiving welfare in order to get child care subsidies. In Ouachita County, Louisiana, and Koochiching County, Minnesota, key informants believed that eligible families living in rural areas in the county were unaware of subsidies or did not think they qualified for the program.

Policy Decisions About Subsidies for Non-TANF Families

As the theoretical framework presented in Chapter One shows, states use several policies to determine which and how many children are served and the amount spent per child served. These policies include eligibility criteria, the level of required co-payments from families and the level payments to child care providers. This section briefly describes these policies for the states in the study.

Eligibility Guidelines

While federal regulations set the maximum family income cut-off at 85 percent of state median income (SMI), states are allowed to set their own lower levels, if they so choose. In 1999, states differed widely on where they set the maximum income limits governing eligibility for the child care subsidy program, for non-TANF and transitioning families. Exhibit 3-9 shows that three states, (Alabama, Massachusetts, and New Jersey) had initial eligibility cut-offs that were between 40 and 50 percent of state median income. California, Louisiana, and New Mexico were at the top of the scale with maximum eligibility over 70 percent of the state median income. (See Appendix Table 3.7 for details.)

Four states (Alabama, Massachusetts, New Jersey, and Texas) also establish a higher maximum eligibility limit for families once they are receiving child care subsidies. These limits were designed so that families would not become ineligible for subsidies at a point when they were still unable to pay their full child care costs. [We refer to this as the extended eligibility limit.] However, the policy also means that two families with the same income, one family not in the subsidy system and the other receiving subsidy, receive different treatment.

In some of the states, eligibility limits changed between 1997 and 1999. Seven states increased their initial eligibility limits. Alabama, Massachusetts, and New Jersey made no change (or very small increases) in the initial income limit, but increased the extended limit (Massachusetts) or instituted an extended limit (Alabama and New Jersey). Ohio and Tennessee eliminated their extended eligibility limit.[34]

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[34] 1997 eligibility limits were extracted from the 1997-1999 state plans.

Exhibit 3-9: STATE SUBSIDY ELIGIBILITY GUIDELINES

Maximum Income Eligibility for a Family of Three not Receiving TANF as a Percentage of SMI June 1999

Percentage of SMI for Maximum Eligibility	Number of States	States
40% - 50%	3	Alabama, Massachusetts, New Jersey
51% - 60%	10	Illinois, Indiana, Michigan, New York, Ohio, Tennessee, Texas, Virginia, Washington
61% - 70%	1	Minnesota
More than 70%	4	California, Louisiana, New Mexico, North Carolina

Exhibit 3-10 shows the percentage of state-eligible children served by subsidies in April 1999. (Because the size of the state-eligible populations changed in some states, it is not useful to describe changes in the proportion of state-eligible children served in the two time periods.) Three of the 16 states that provided sufficient data (Illinois, Massachusetts, and Michigan) served over 30 percent of eligible children. Six states served less than 20 percent of state-eligible children with subsidies.

Exhibit 3-10: STATE-ELIGIBLE CHILDREN SERVED

Percentage of State-Eligible Children Served With Child Care Subsidies From All Sources April 1999

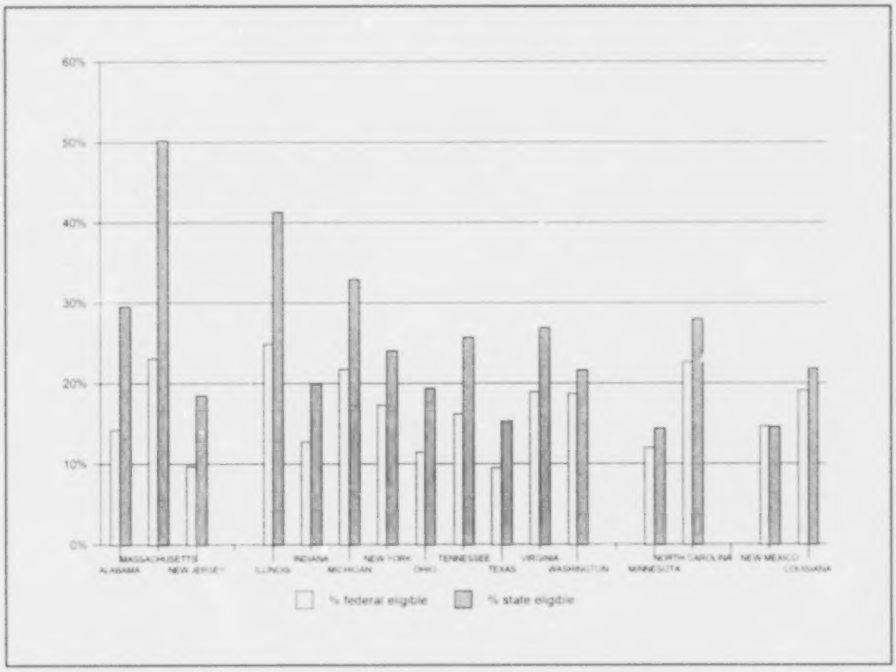
Percentage of State-Eligible Children Served	April 1999 Number of States	States*
Less than 20%	6	Indiana, Minnesota, New Jersey, New Mexico, Ohio, Texas
21% - 30%	7	Alabama, Louisiana, New York, North Carolina, Tennessee, Virginia, Washington
31% - 40%	1	Michigan
41% - 50%	1	Illinois
51% - 60%	1	Massachusetts

* Data not available for California.

Exhibit 3-11 compares the percentage of federally-eligible children vs. state-eligible children who receive subsidies in each state. The table shows that the difference in percentage served reflect, in part, but not entirely, more restrictive eligibility guidelines in some states. These differences also reflect the overall amount of subsidy funding available, and the amount of funding that is allocated to eligible children. In some states, a relatively lower number may be served, but payment rates to providers may be relatively higher and co-payments required from parents may be relatively lower.

Exhibit 3-11: PROPORTION OF ELIGIBLE CHILDREN SERVED

Percentages of Federally-Eligible Vs. State-Eligible Children Served



Co-payments

A second major policy lever used by states is its co-payment policies – the amount of the payment to the child care provider that families are required to pay. In 15 of the 17 states in the study, co-payments were set by family income and did not vary by the type or cost of child care. Exhibit 3-12 shows the co-payment levels for a family with one parent and two children, at two income levels: 33 percent of the state's median income and at 50 percent. The exhibit shows that, at 33 percent of SMI, 12 states required parents to pay 9 percent or less of their income toward child care costs. One state—Massachusetts—required families to pay more than 15 percent of their income for subsidized care. Families at the higher income—50 percent of SMI—were required to pay more toward child care expenses. Six states required that parents contribute 9 percent or less of their income toward child care. In contrast, four states required child care contributions that totaled more than 12 percent of families' incomes. Finally, in three states, families at 50 percent of SMI were no longer eligible for subsidies and therefore had to assume the full cost of care. (For details, see Appendix Table 3.9.) (Please note that 11 of the 17 states allowed providers to charge fees to parents that exceeded the co-payments. These practices are described in more detail in Chapter 5.)

Exhibit 3-12: CO-PAYMENT BURDENS

Co-payment as a Percentage of Income at 33% and 50% of Monthly State Median Income June 1999

Co-payment as % of monthly Income	# States at 33% SMI	States	# States at 50% SMI*	States
0%	2	California, Louisiana	1	California
0.1%-3%	1	Minnesota	0	
3.1%-6%	4	Illinois, Indiana, New York, New Mexico	3	Louisiana, Michigan, Minnesota
6.1%-9%	5	Michigan, North Carolina, Ohio, Tennessee, Washington	2	New Mexico, North Carolina
9.1%-12%	4	Alabama, New Jersey, Texas, Virginia,	4	Illinois, Indiana, Tennessee, Texas
12.1-15%	0		3	Ohio, New York, Virginia
More than 15.1%	1	Massachusetts	4	Alabama*, Massachusetts*, New Jersey*, Washington

* Families are ineligible for subsidies at 50% of SMI and therefore those who use center-based care must pay its full price, which is more than 15 percent of their income.

Although in some states co-payment levels were higher than the 10 percent of family income recommended by advocates and others, even when prompted, few of the key informants interviewed rarely saw co-payments as burdensome for families. (Please note that our key informants were not always providers, were never parents of subsidized children, and did not necessarily have close interactions with providers.) In fact, key informants from the majority of states in the study believed that co-payments were not particularly onerous for most of the families receiving subsidies, nor did child care providers experience much difficulty in collecting the co-payments. Many times, when asked about issues related to co-payments, key informants remarked that collecting a co-payment from a low-income family receiving subsidies was much easier than collecting the full price of care from a low-income family that was not receiving any subsidies. (More information on co-payment practices appears in Chapter Five.)

There were some important exceptions, particularly in states where families closer to the income eligibility cut-off point were required to pay proportionately higher rates. This was the case in King County, Washington, where the marginal rate of increase in co-payment for each dollar of income above the federal poverty level is 47 percent. Key informants from local welfare offices in King County described situations where families got better paying jobs, only to discover that their contribution to child care costs had doubled or tripled. Some key informants in Illinois and Massachusetts also believed that co-payments were high for families at the top of the income eligibility scale.

Exhibit 3-13 depicts the "notch" and "cliff" effects of the co-payment policies between these two income levels. The "notch" effect describes the difference in percentage of family income that parents must contribute toward child care expenses at the two points in time. In four states, families at higher income levels were not required to pay a higher percentage of their incomes toward child care. In fact, in Michigan, families at the higher income level contributed a slightly lower percent of the incomes toward child care. Families in New York and Washington experienced a large "notch" effect, in that their required contributions increased by 10 percent and 14 percent respectively when they moved from the lower to the higher income levels. Finally, families in three states (Alabama, Massachusetts, and New Jersey) experienced the "cliff" effect – no subsidy assistance at all as they moved to 50 percent of state median income.

Exhibit 3-13: CO-PAYMENT CLIFFS AND NOTCHES

Differences in Percent of Income Represented by Co-payments for Families at 33% of State Median Income and 50% of State Median Income
June 1999

Difference Between %SMI at 33%SMI and 50%SMI	# States	States
0%*	4	California, Michigan, North Carolina, Texas
3% SMI	2	Minnesota, New Mexico
4% SMI	3	Louisiana, Ohio, Tennessee
5% SMI	3	Indiana, Illinois, Virginia
10% SMI	1	New York
14% SMI	1	Washington
Cliff effect**	3	Alabama, Massachusetts, New Jersey

* Co-payments for families at 50% SMI in Michigan are 2% of SMI less than families at 33% SMI.

** Families at 50% of SMI are no longer eligible and must assume the full price of child care without subsidies.

Payment Rates

Another important way in which state policymakers can manage subsidy dollars is through the manipulation of the maximum payments that providers may receive, also known as the payment rate. (The state's contribution to the provider is the payment rate minus the individual family's co-payment). Exhibit 3-14 provides summary information about the range of payment rates for one type of care - full-time center care for three-year-olds. A full discussion of payment rates for different types of care can be found in Chapter Five and the use of differential payment rates to support higher quality is described in Chapter 6. Exhibit 3-14 shows that, after adjusting for child care labor costs, 13 of the 17 have maximum rates between $80 and $140 per week. Two states have adjusted rates that fall above $140. (For details, see Appendix Table 3.10).

Exhibit 3-14: PAYMENT RATES

Comparisons of State Maximum Payment Rates for Full-Time Center-Based Care for a Child Age Three Adjusted for Differences in Child Care Labor Costs[35]

Adjusted Maximum Weekly Rate	Number of States	Names of Counties and States
$60 to $80	2	Indiana, New Mexico
$81 to $100	6	Alabama, California, Louisiana, New Jersey, Tennessee, Washington
$101 to $120	5	Illinois, Massachusetts, New York, Ohio, Texas
$121 to $140	2	North Carolina, Minnesota
Over $140	2	Michigan, Virginia

Key informants in several of the states believed that the payment rates were not sufficient to enable families to have access to child care in some communities. Chapter Five provides a full discussion of this issues, as well as issue related to providers' collection of co-payments from parents.

* * * *

State policy decisions about the major policy levers—balancing the needs of TANF and non-TANF families, other eligibility criteria, co-payment levels, and payment rates—greatly affect the degree to which families use subsidies and the types of care that they select. Another set of decisions, which deal with how the policies are implemented, also greatly affects family decisions. The next two chapters discuss major administrative decisions that affect who uses subsidies and which child care providers they use.

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[35] For a discussion of how and why child care costs were adjusted, please see footnote 12 in Chapter 2.

Chapter Four: Administering Child Care Subsidy Systems after PRWORA

As we saw earlier, almost all of the states experienced tremendous growth in the use of subsidized child care. Nevertheless, in most states, there remained more demand for subsidies from eligible families not on TANF than could be met with the current resources. The dramatic growth in the numbers of children receiving subsidies, coupled with the continued pressure of more families requesting subsidies than could be served, posed some real administrative challenges.

The overall administrative challenge that states faced was how to absorb the great expansion in subsidy funding, and, at the same time, move from a system where families connected to TANF were guaranteed child care subsidies to a system where, under the federal law, no group had a guarantee of child care. This chapter describes the ways that states and communities are implementing the subsidy policies described earlier, the challenges that arise, and the strategies states and communities are developing to meet those challenges. It addresses the following questions:

- How have states and communities organized the administration of child care subsidies for TANF and non-TANF families, including systems for determination and redetermination of eligibility? How does the organization of the subsidy system affect families' ability to continue to receive subsidies as they move from one eligibility category to the next?

- What are some of the administrative challenges that states and communities face as a consequence of increased growth in subsidies and flexibility in federal rules?

Summary of Findings

- **By 1999, almost all of the study states had consolidated the administration of child care subsidies into one state agency.** Only California maintained separate systems within two state agencies.

- **For low-income families, regardless of TANF status, in the majority of study counties, access to the subsidy system was through a single agency. In 11 of the 25 counties, non-TANF families applied for subsidies at the TANF agency.** Of those 11 counties, a small number made the process easier for non-TANF families by allowing application and reapplication by mail, rather than in person at the TANF agency. In ten other counties with a unified local system, access to subsidies for all families was through a private organization, a choice that reduced potential barriers for non-TANF families but that may have added complexity to the lives of TANF families, who would have to deal with the TANF office for benefits other than child care. In the remaining four counties, access to child care subsidies was divided according to TANF status, posing challenges for families moving from one eligibility status to another.

- **In most counties, staff responsible for determining eligibility for subsidies were child care specialists rather than social workers.** Ideally, this should mean that staff have the skills and knowledge necessary to help low-income families make informed child care choices. However, these specialists were not equally knowledgeable about child care, especially in some TANF offices where social service staff were simply reassigned as child care specialists.

- **The rapid expansion of child care subsidies initially made it difficult for states (or counties) to predict demand accurately and to allocate funds appropriately.** In states that maintained separate budgets for families in different eligibility categories, the inability to transfer funds across program categories exacerbated the problem. In some states with a unified budget, after two years of experience with the new welfare law, key informants reported increasing ability to distribute funds to counties in ways that reflected more accurately the pattern of demand for subsidies.

- **At both state and community levels, the growth in subsidy programs has greatly strained administrative capacity to administer them.** Some states and communities experienced severe staffing cuts just as subsidy programs expanded, which impeded their ability to administer subsidies efficiently. The effects of insufficient staff were sometimes compounded by systems that were inadequately automated.

State and Local Systems for Administering Child Care Subsidies

The Child Care and Development Fund requires that each state name a lead agency for the delivery of child care services. Within the guidelines set out by the federal legislation, states are responsible for budgeting decisions, setting and interpreting policy, determining the local systems and processes for delivering subsidies, such as where parents will go to apply for subsidies and the methods by which child care providers will be paid, implementing these processes, and monitoring and tracking the system. A key decision at the state level involves determining the division of these responsibilities between state and local governments or offices, including whether parts of subsidy administration can or will be turned over to private agencies. In general, this division of labor is based on states' underlying governance structures and ways in which social services are traditionally administered, including whether the state has a county-based delivery and administrative system for social services. By spring of 1999, all of the study states with the exception of California had consolidated the administration of child care subsidies within a single state agency. Usually, though not always, the state agency in charge of child care subsidy policy and administration also manages the TANF program.

State vs. Local Administrative System

Child care subsidies are administered within a context of existing systems for administering all social services, which are most often based on state laws and traditions. One primary division is whether the state has a statewide or county system for the delivery of social services. As Exhibit 4-1 shows, in ten of the states in the study, all decision-making rests with the state agency and counties have little or no latitude in either interpreting policies or shaping administrative practices. (The one exception is Washington; although it is a statewide system, local offices have flexibility in designing and managing some administrative processes.) In the seven states where the subsidy system is county-based, counties are granted at least some decision-making authority. In many of them, the county is responsible for some decisions about some administrative practices, such as staffing patterns and responsibilities, application and reapplication procedures, payment approval procedures, and record systems.

California has a mixed system. For non-TANF families, the Department of Education has a state-delivered system of subsidies and the Department of Social Services administers child care subsidies for TANF families through its county system. The California subsidy system is complex and, for families moving through and out of the welfare system, has three stages. Stage 1, which is managed by the Department of Social Services and implemented by the local county offices, begins with a family's entry into the CalWORKS program (the state's TANF program) and typically lasts until the recipient's situation is stable, or if no funds are available in Stage 2. Stages 2 and 3 are administered by the Department of Education through Alternative Payment programs, often by local Child Care Resource and

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Referral agencies, which have contracts directly with the state. Stage 2 serves CalWORKS families whose situation has stabilized or who are transitioning from CalWORKS. Families leave Stage 2 when Stage 3 or other CDE child care program slots are available, or when the 24-month time limit after leaving cash aid expires.

In some states with county systems, such as Indiana and New York, the state sets subsidy policy and counties control interpretation and administrative practices. In two states with county-based systems, Texas and Virginia, a good deal of authority for developing policies as well as their interpretation and administration rests or can rest at the county level.

Exhibit 4-1: SUBSIDY DELIVERY SYSTEMS

County- or State-Based Systems for Delivering Child Care Subsidies
June 1999

Statewide System	County-Based System	Mixed System
Alabama Illinois Louisiana Massachusetts Michigan New Jersey New Mexico New York Tennessee Washington	Indiana Minnesota North Carolina Ohio Texas Virginia	California
10 states	6 states	1 state

Vouchers vs. Contracts

As required by law, in all of these states, families have access to child care subsidies in the form of vouchers, which let parents use the subsidies in all legal forms of child care, provided that all of states' certification requirements are met. (Certification requirements are described in Chapter Five.) In addition to these voucher systems for child care subsidies, four of the study states (California, Illinois, Massachusetts, and New Jersey) maintain a separate system of contracted care, in which the state, or an individual county within the state, enters into an agreement with individual providers for a specified number of subsidized slots. (By and large, providers that have child care slots that are not reserved by the contract may also accept voucher payments for the unreserved slots.) This contracted system is usually not an automated system and does not interact with the voucher system at the community level. The contracted systems in the states in our study—approximately half the subsidized care in California, one-third in Massachusetts and New Jersey, and less than one-fifth in Illinois—are for the most part, excluded from the discussion that follows.

Contracts work well for providers, especially for child care centers, since they reduce uncertainty about whether available slots will be filled. Key informants in many areas believed that contracts were the only way to enable centers to exist in low-income communities, so that families living there have a full range of child care options. Obviously, if families were only offered care in contracted centers and did not have access to vouchers, their choices would be constrained in a different way.

New Jersey maintains two separate voucher programs for child care subsidies—Work First New Jersey Child Care, for TANF and TCC families, and New Jersey Cares for Kids, for non-TANF income-eligible families—but works effectively to blend the two and move money across the two funding pools as needed.

Accessing the Child Care Subsidy System

Nationally, only a small proportion of families that are eligible for child care subsidies actually apply for them. There are many reasons why a family might not apply: the family may be aware that there are already local waiting lists for subsidies; the family may not need child care because the parent's work hours coincide with school hours or another adult is present in the home to take care of the child; the value of the subsidy may not appear sufficient to make applying for it worthwhile; the provider the family is using may not be eligible for or interested in participating in the subsidy system; the family may be ignorant of subsidies or their own potential eligibility; or the family may hesitate to apply for government assistance. For those families who are hesitant to apply, a "user-friendly" system may help to break down barriers.

At first glance, the most "user-friendly" approach would differ for TANF and non-TANF families. For non-TANF families, it would be a system where applications were available in many locations and then mailed to a local office. For TANF families, the most user-friendly system would enable families to apply and maintain subsidy use through the same office where they must handle business related to their cash assistance and other benefits.

States and counties, however, must balance the degree to which systems are user-friendly and the extent to which they are cost-effective and limit fraud and abuse. For instance, the state may believe that it is more efficient and likely to be more accurate when state eligibility workers fill in the application forms and verify eligibility on-site, rather than rely on forms that are mailed. Therefore, it may require parents to make an appointment with the eligibility worker rather than mail in an application. Similarly, states that establish separate processes for eligibility determination for TANF and non-TANF families have to deal with the increased complexity of the system.

There are three sets of related decisions when states are balancing "user friendliness" with efficiency and accountability: (1) should there be one or multiple organizations to which low-income parents apply for subsidies?; (2) to which local organizations should parents apply?; and (3) how must parents apply?

States are arrayed at different points on a spectrum of ease of access for families. At the farthest end, having simplified the process, eliminated many of the distinctions between TANF and non-TANF families and removed any lingering stigma, is Illinois, where all low-income working families (except for those using contracted care) apply to a single non-government agency and can make the application and reapplication by mail, if they so choose. At the other end of the spectrum is California, where responsibility for subsidy administration is split between two state agencies and their county offices. For families that have not been part of the welfare system recently or ever, access to subsidies is relatively simple, since the Department of Education has historically administered subsidies for low-income non-TANF families and continues to do so. For families making the transition from TANF, access to subsidies is more complex, since it involves two different agencies and three stages in the transition, as described earlier.

In between these two extremes are the rest of the study states, which have made different decisions about efficiency and user-friendliness, or about which group of low-income families will drive the administration of the system.

In many of the study counties, the decision was made to lodge subsidy administration in a single local office. In 11 of the 20 counties where this approach was used, access occurs through the TANF office, to which all low-income families, regardless of status, must apply. This system works well for TANF families but may discourage non-TANF families from applying. Four of the states have attempted to eliminate this barrier by allowing non-TANF families to apply and reapply by mail. Below we provide more detail on the administrative strategies used by states and counties.

Single vs. Multiple Points of Access

In 20 of the 25 counties, TANF and non-TANF families apply for subsidies at a single agency. In 11 of these counties, the single office is the TANF office; in ten of them the single point of access is a non-governmental agency under contract to provide these services. In the remaining counties,TANF and non-TANF families apply to different agencies (Exhibit 4-2). The typical pattern in these counties is one in which TANF families apply to the local TANF office and non-TANF families apply to a non-governmental agency, frequently the local Child Care Resource and Referral (CCR&R) agency.

Exhibit 4-2: ACCESS POINTS FOR SUBSIDIES

Counties Using Single vs. Multiple Points of Access to Subsidies

Counties Offering Access to Subsidies Through a Single Agency[a]	Counties Offering Access to Subsidies Through Multiple Agencies
Mobile, AL Los Angeles, CA Cook, IL* Madison, IN Wayne, MI Itasca/Koochiching/Pennington, MN Mecklenburg, NC Alamance, NC Johnston, NC Union, NJ* Dona Ana, NM Luna/Grant/Hidalgo, NM Orange, NY Hamilton, OH Hardeman/Fayette/Haywood/Lake/Lauderdale, TN Marshall/Coffee/Bedford, TN Shelby, TN Harris, TX Arlington, VA King, WA	Orange**, CA Riverside*, CA Ouachita, LA Franklin, MA* Hennepin, MN
20 counties	5 counties

[a] The agency may have several offices scattered across the county, in the case of larger counties.

* Families using contracted care must apply at the centers or family child care networks.

** Families using contracted care must apply through agencies offering access to voucher subsidies.

Privatization of Subsidy Services

In addition to deciding whether subsidies should be offered through a single agency or multiple agencies, states or localities must determine which agencies should be responsible for administering subsidies. Of the 25 communities in our study, 11 provided subsidies to families exclusively through government agencies (usually local TANF offices) while 10 others contracted with non-governmental organizations (e.g., CCR&Rs, contracted child care programs, or other community-based organizations). Four of the counties that offered multiple points of access to subsidies did so through a mix of non-government and government agencies. Exhibit 4-3 summarizes these choices.

The decision about whether to use government agencies or private organizations to provide subsidy services entails a set of tradeoffs. For example, most of the counties that use government agencies use the TANF agency to determine eligibility for subsidies. Delivering subsidies through a TANF office can create a tight link between TANF receipt and child care assistance, which can help ensure that families receiving TANF learn about and have ready access to child care subsidies. It may also result in some administrative economies of scale, since child care delivery is co-administered with TANF and other public benefit programs.

Exhibit 4-3: HOW SUBSIDIES ARE ACCESSED

Whether Government Agencies, Non-Government Agencies, or a Mix of Government and Non-Government Agencies Offer Subsidies
June 1999

Access to subsidies is exclusively through government agencies	Access to subsidies is exclusively through non-government agencies	Access to subsidies is through a mix of government and non-government agencies
Ouachita, LA Itasca/Kochiching/Pennington, MN Wayne, MI Dona Ana, NM Luna/Grant/Hidalgo, NM Orange, NY* Alamance, NC Johnston, NC Hamilton, OH Arlington, VA King, WA	Mobile, AL Los Angeles*, CA Cook, IL* Madison, IN Mecklenberg, NC Harris, TX Union, NJ Shelby, TN Hardeman/Fayette/Haywood/Lake/Lauderdale, TN Marshall/Coffee/Bedford, TN	Orange*, CA Riverside**, CA Franklin, MA Hennepin, MN
11 counties	10 counties	4 counties

* Families using contracted care must apply at the centers or family child care networks.

** Families using most contracted care must apply through agencies offering access to voucher subsidies.

States that choose to privatize may have more flexibility to expand staffing than would be possible if application processes occurred through government agencies. They would also have the ability to coordinate the child care subsidy programs more closely with other child care programs in the community, such as CCR&R, and with efforts to expand the supply or improve the quality of care.

The 14 counties that use non-governmental agencies to provide subsidies, either as the only access point for subsidies or as one of multiple access points, are examples of the potential advantages and disadvantages of privatizing. For example, those private agencies usually specialize in child care services and can provide expertise and experience in helping families choose providers. Moreover, the private agencies are much less likely to have any stigma attached to them. On the other hand, the use of private agencies exclusively may pose an additional burden for TANF families who have to travel to another location, in addition to the TANF office where they apply for cash assistance, to apply for subsidies and choose a provider.

Finally, the four counties that use a combination of governmental and non-governmental agencies to provide subsidies represent a mix of arrangements. For example, in Orange County and Riverside County, California, TANF families apply for subsidies at the TANF office, while transitional and non-TANF families apply for voucher care at Alternative Payment agencies under contract to the California Department of Education (CDE). In Riverside County, families using providers under contract with the CDE, however, must apply for subsidies directly at the contracted programs. In Orange County, families using most contracted providers must apply at the CCR&R/Alternative Payment program. Franklin County in Massachusetts, which also has both voucher and contract subsidized care, uses a similar system. In Mecklenberg County, North Carolina, the private agency that manages the subsidy system is considering outstationing a worker with a computer terminal at the TANF office to serve TANF families who need subsidies. In Hennepin County, Minnesota, while TANF and transitional families must apply at the TANF office, non-TANF families apply for subsidies at either the CCR&R or the TANF office.

Union County, New Jersey has perhaps the most flexible system. There, while the subsidy system is managed under contract by a private CCR&R, TANF families may apply for subsidies either at the CCR&R or through a CCR&R eligibility worker outstationed at the TANF office.

Application Processes

The ease of application and reapplication may be important factors in families' decisions to apply for subsidies. For non-TANF families, the ease of application and reapplication may be an important factor in their decision to apply for a subsidy. Exhibit 4-4 shows that, in nine of the study counties non-TANF families have to apply for assistance in person, at the TANF office. In eight other counties, non-TANF applicants must apply in person, but to another agency. In ten counties, the application can be by mail, although the application may have to be sent to the TANF office. (Some counties are listed more than once because there are varying practices within the same study area.)

In almost all of the study counties, TANF families were required to apply for subsidies in person, either at the TANF office or at another agency. For non-TANF families, in-person application at the TANF office is not a significant burden if it is part of the case interview. In eight counties, however, families receiving TANF were required to apply, in person, at an agency other than the local TANF office. Reducing the barriers for non-TANF families may complicate life for TANF recipients, who must still go to TANF offices for other benefits.

If the application must be in person, the location of the office, and whether there are multiple locations, becomes important. If the office is not in a central location or cannot be reached by public transportation, it may be difficult for some families to use. In some rural areas, such as Luna, New Mexico, the local TANF office has remote locations, and Washington also has local offices located throughout King County. Some key informants also indicated that non-standard hours, allowing families to apply for child care without taking time from work, were also important.

In 11 of the counties, redetermination of eligibility for non-TANF families can be done by mail; the others require in-person application. In-person application, and reapplication, for working parents, can be a real hurdle that mail application and reapplication eliminates. In Tennessee, eligibility for Transitional Child Care is automatic, and does not require reapplication.

Exhibit 4-4 APPLICATION FOR NON-TANF FAMILIES

Application and Reapplication Procedures for Non-TANF Families
June 1999

Application in Person at TANF Agency	Application in Person at Another Agency	Application by Mail	Reapplication by Mail
Wayne, MI* Itasca/Koochiching/ Pennington, MN Hamilton, OH Alamance, NC Johnston, NC Dona Ana, NM Luna/Grant/Hidalgo, NM Arlington, VA King, WA	Mobile, AL Orange, CA Riverside, CA Los Angeles, CA Madison, IN* Franklin, MA Mecklenburg, NC Union, NJ	Cook, IL** Ouachita, LA Hennepin, MN Itasca/ Koochiching/ Pennington, MN Orange, NY Harris, TX King, WA Hardeman/Fayette/ Haywood Lake/ Lauder-dale, TN Shelby, TN Marshall/Coffee/ Bedford, TN*	Cook, IL** Ouachita, LA Hennepin, MN Itasca/ Koochiching/ Pennington, MN Harris, TX King, WA Orange, NY Hamilton, OH Hardeman/Fayette/ Haywood Lake/ Lauderdale, TN Shelby, TN Marshall/Coffee/ Bedford, TN*
9 counties	8 Counties	10 counties	11 counties

* Initial application to determine eligibility can be by mail. In-person interview required once eligibility is determined.

** In Cook County, Illinois, TANF as well as non-TANF families can apply and reapply for subsidies by mail.

In those local communities where there are additional subsidy programs run by the local governments, such as King County, Washington, there is yet another point of access for subsidies. In King County, key informants at the local office indicated that, frequently, parents who called to apply for local subsidies were ineligible for the local subsidy, eligible for the state subsidy, and needed to be referred to the state's local welfare offices.

Staff Responsible for Determining Eligibility

Another aspect of "user-friendliness" is the expertise of the staff who assess eligibility for child care, and often provide advice or referrals, if families have no existing child care provider. As the increases in funding for subsidies have increased the use of subsidies, states and communities have been working to ensure that staff have the skills and knowledge to help low-income families meet their child care needs. As Exhibit 4-5 shows, fifteen of the counties in the study used child care specialist staff to assess eligibility for subsidies for all families. (In King County, Washington, where local offices have some latitude about staffing, some local offices used child care specialists, others used social service staff.) Eight counties used child care specialists to determine the eligibility of non-TANF applicants, while using social service staff to assess eligibility for TANF applicants at the same time they assessed eligibility for other services. Only three counties used social service staff with all applicants; one of the three is a very rural county where the caseload size would not justify the addition of a specialist staff member.

While many counties that use the TANF agency as the point of entry for subsidies for some or all families use child care specialists rather than the TANF caseworkers to assess eligibility, the expertise of these specialists is variable. In some counties, such as Alamance and Johnston in North Carolina, and King County in Washington, decreases in TANF caseloads have allowed administrators to reassign social service staff as child care specialists. Although these former social service staff understand the eligibility criteria and other aspects of subsidy policy, they are not likely to be specially trained in child development, or to be broadly knowledgeable about the local child care market.

Exhibit 4-5: STAFF DETERMINING SUBSIDY ELIGIBILITY

Use of Child Care Specialist vs. Social Service Staff for Eligibility Determination

Child care specialists determine eligibility for all families	Child care specialists determine eligibility for non-TANF families	Social service staff determine eligibility for TANF families	Social service staff determine eligibility for all families
Mobile, AL Los Angeles, CA Cook, IL Madison, IN Union, NJ Dona Ana, NM Luna/Grant/Hidalgo NM Orange, NY Alamance, NC Johnston, NC Mecklenburg, NC Hamilton, OH Harris, TX Arlington, VA King, WA (some local offices)	Orange, CA Riverside, CA Ouachita, LA Franklin, MA Hennepin, MN Shelby, TN Hardeman/Fayette/ Haywood Lake/ Lauderdale, TN Marshall/Coffee/Bedford, TN	Orange, CA Riverside, CA Ouachita, LA Franklin, MA Hennepin, MN Shelby, TN Hardeman/Fayette/ Haywood/Lake/ Lauderdale, TN Marshall/Coffee/ Bedford, TN	Wayne, MI Itasca/Koochiching/ Pennington, MN King, WA (some local offices)
15 counties	8 counties	8 counties	3 counties

However, the degree to which this level of expertise is important was an open question for a number of key informants. Throughout the study sites, key informants reported that the majority of families applying for child care subsidies already had a child care provider in mind and did not need information and counseling about child care selection. Similarly, only a small proportion of unsubsidized families rely on child care resource and referral systems for help in selecting child care.

Changing Eligibility Status

Perhaps the most critical aspect of the administration of child care subsidies, from the family's perspective, is how the system deals with a family's changing status, and whether the methods chosen increase or decrease the risk that families moving from one category to another will lose their subsidies although they remain eligible to receive them. In the counties in which access to subsidies is through a single agency to which both TANF and non-TANF families apply, families are less likely to fall through the cracks as they change status.

New Mexico provides an example of a system designed to be as seamless as possible. As families move through four priority categories, the change in eligibility status is invisible to the family. Families are approved initially for 12 months of subsidies before their eligibility must be redetermined. There is no break in subsidy, nor need a family reapply as they move from training or job search to employment. Similarly, if a family loses cash assistance because of increased earnings or because of time limits, they need not reapply for a subsidy. They will need to go through the redetermination process at the end of the

12-month certification period, but they will continue to receive subsidies as long as they remain income-eligible and funds are available. Similarly, in Ohio, the state system switches families to other funding streams to maintain child care assistance despite a change in eligibility status. A family that leaves TANF, continues to work and is income-eligible would continue to get assistance without the need for action on the family's part.

By contrast, Massachusetts is an example of those states with dual systems, where TANF families initially access subsidies through the local welfare office but then must reapply for subsidies at a local Child Care Resource and Referral Office. Informants believed that, for families, the reapplication to a different agency in a new location, with different requirements, despite the fact that they maintain a high priority for subsidies and are likely to receive them, increased the chances that they would lose subsidy. In New Jersey, when families move from eligibility based on cash assistance to eligibility for Transitional Child Care, key informants reported that families may lose the subsidy because caseworkers have unintentionally closed the child care subsidy case at the same time they closed the cash assistance case. This may be one reason why only 22 percent of families who are eligible for TCC actually receive it in New Jersey.

Issues and Challenges for States and Counties

States and counties have faced a number of challenges as they implemented changes in the policies and procedures governing child care subsidies. Below we discuss three that surfaced repeatedly in our discussions with state and local staff and key respondents. They are: how to balance the increased need for state control over the subsidy system with an increased desire for local autonomy; how budgets for subsidies should be assigned; and capacity to deal with a growing system and increased demand. Each of these issues is discussed briefly below.

Balancing State Control and Local Autonomy

Informants in some of the states, irrespective of the underlying delivery system, described increased tensions that result from the rapid expansion of child care subsidies over the past two years. These tensions are between the increased need for state control over subsidy policies and interpretation and the increased need for local autonomy to meet specific local needs and build on the particular strengths of local government.

Key informants in some states and communities described concerns that arose at the state level in the past few years when the amount of funding for child care subsidies increased substantially, provoking a more careful examination of the ways in which subsidies had been delivered in the past. These issues came up more frequently, but were not limited to, cases where subsidies were administered by private organizations.

An example of this situation is Alabama, essentially a state system with limited local authority over administrative processes and with local subsidy administration privatized to child care management agencies (CCMAS). As described by key informants, the state's child care administration reorganized in 1998 and, in the process, the state re-evaluated the ways in which the state worked with the CCMAs, as well as its methods for making funding allocations to these agencies. Mobile County, Alabama, with its active CCMA, had received more funding than it would have under the formula allocation, which is currently being phased in so it will not result in local decreases in funding. Funding changes, as well as the further codification of state and local roles and responsibilities in the delivery of subsidies, conversions of payment systems, and the conversion to a different automated system have highlighted a need for new working relationships between the state administration and local agencies.

An example of a directly contrary trend, in terms of authority over subsidy programs, is Texas, where, starting in the Fiscal Year 2000, almost all control over welfare policy and related services, such as subsidies for child care, was being devolved to 28 regional Workforce Development Boards. Although the Boards must adhere to some statewide rules and principles with respect to subsidies, they have complete discretion to set priorities for subsidies, to allocate funds to different priority groups and to determine provider fees and parent co-payment amounts. Similarly, in Indiana, virtually all services for children and families are directed at the county level by local Step Ahead councils. The councils have considerable control over the administrative procedures for the local delivery of child care subsidies. In Indiana, some informants discussed the increased complexity resulting from 92 different county systems, as well as difficulties related to oversight.

There were some states and communities in the study where there had been no recent changes and informants did not identify tensions, yet either the county was afforded a relatively large degree of local discretion, or the county was "ahead" of the state in some aspect of the delivery of services.

One example of this dynamic is North Carolina, where the state supervises the Subsidized Child Care (SCC) program, but the SCC program and the Smart Start program are locally-managed. Smart Start, a fully-funded program of grants to counties, is intended to fill important gaps in services for children through age five. Smart Start funds are allocated to local partnerships that include representatives from county institutions that serve children and families as well as parent representatives. Although the state legislature has mandated that at least 30 percent of Smart Start funds must be used to fund child care subsidies, and at least 70 percent of funds must be used to support child care (through subsidies and quality initiatives), local Partnerships may dedicate more to subsidies and have discretion over the allocation of the remaining funds.

Another example is Virginia, where counties may waive many aspects of state subsidy policy. Arlington County operates under a set of waivers that are probably unique and certainly wider-ranging than others in the state. For example, the county has developed its own co-payment policies and rate structure. It has also developed its own family child care certification system, with stricter requirements than those the state imposes. Arlington County's administrative system is more advanced than the state system and the county also funds its own subsidy program, the Local Fee System Day Care Program, in which local funds are used for families whose incomes are higher than the state's maximum eligibility cut-off.

In King County, Washington, in addition to the state subsidy program that is accessed through local offices of the state welfare agency, there are two local programs designed to meet the needs of low-income families with incomes just over the state eligibility maximum. One program, supported by funds from the City of Seattle, is for residents of the city; the other is funded by the county for eligible families who live outside the city limits.

Setting Subsidy Budgets

One key decision that states must make in setting subsidy budgets has been discussed earlier, namely whether funds for TANF and non-TANF families should be blended or should remain as separate pools. As we noted earlier, the inability to move funds across eligibility categories sometimes created a situation in which there were insufficient funds for non-TANF families, and a surplus of funds for TANF child care subsidies.

In addition to a consolidated subsidy program, in the majority of study states (12), there is also a unified budget for subsidies to families in all three eligibility categories (TANF, Transitional Child Care [where the program exists] and non-TANF, income-eligible families). Within that budget, families who are on TANF or transitioning maintain priority status. However, five states maintain separate funding streams and budgets. In only one of these five states, New Jersey, can funds be moved from one budget category to another (Exhibit 4-6).

In many states, and also at the county level, TANF funds are protected because of concerns that the likely demand by TANF families for subsidies had been under-estimated. For example, in New York State, some counties earmark subsidy money for their "guaranteed" population (TANF and TCC families) because they are afraid of running out of money, in which case they would need to cover the cost of subsidies for the populations that are guaranteed assistance with funding from other sources.

Orange County, California, has chosen not to protect funds, but the director of the subsidy program worries that, if the county uses all of its allocation from the state, it will have to allocate county resources for remaining families in the "guaranteed" categories. In other localities, as states and communities see that the demand by TANF families is not overwhelming their subsidy budget, these concerns are being allayed.

Exhibit 4-6: SUBSIDY FUNDING STRUCTURES

States with Unified Subsidy Pools vs. Multiple Funding Pools

States with Single Unified Budget for All Families Receiving Child Care Subsidies	States with Separate Budgets for TANF, TCC and Income-Eligible Families; Ability to Transfer Funds	States with Separate Budgets for TANF, TCC and Income-Eligible Families; No Ability to Transfer Funds
Alabama Illinois Indiana Michigan Minnesota New Mexico New York North Carolina Ohio Tennessee Texas Washington	New Jersey	California Massachusetts Louisiana[36] Virginia
12 states	1 state	4 states

Key informants reported that the growth in the subsidy system and the difficulty of predicting accurately the demand for subsidies by families in different eligibility categories made it hard for states to allocate funds appropriately. However, after initial missteps, and with more experience under the new federal welfare reform law, informants reported that states were doing better. For example, in Minnesota, allocations for subsidies for non-TANF families were initially made so that, in some counties, there were surplus funds while in others there were waiting lists. The state has since revised its allocation formula to distribute funds to counties in ways that reflect more accurately the pattern of demand for subsidies.

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[36] Louisiana is moving to a more integrated system. While the two voucher programs currently operating will continue, a new automated system will include participants in both programs and matching policies and procedures will be implemented for both programs.

A three-year period of instability in the Ohio state agency, that veteran staff are still working to overcome, was characterized by wide swings in subsidy policies and funding levels, and attendant problems with the allocation of subsidy funds. One year, counties would be grossly underfunded; the next year, over-funded. Key informants in Hamilton County reported that the county was forced to allocate county funds for the state's subsidy program to meet a funding shortfall, for which the state reimbursed the county in the next funding cycle.

For counties in states that maintain separate budgets, the inability to transfer funds across program categories can present problems. In California, Los Angeles County predicted that, for the 1999 fiscal year, it would underspend its funding for Stage 1 child care by almost 50 percent; unfortunately, although there was unmet demand for subsidies on the part of other low-income families, funds could not be moved from the Stage 1 funding pool to another in order to ease the situation.

The different funding streams may be governed by different rules that create incentives to serve one group more aggressively than another. In Minnesota, for example, counties are given a budget allocation for non-TANF families, but can make payment claims for all eligible TANF and TCC families.

Capacity Issues

Staff Shortages

Both at state and community levels, the growth in staffing has not been commensurate with the growth in subsidy programs. Indeed, some states experienced severe staffing cuts, just as subsidy programs expanded. Key informants reported these trends in many of the study states and communities.

Since the advent of welfare reform, child care subsidy caseloads have increased in most counties while TANF caseloads have decreased. Some states and counties have responded by hiring more eligibility specialists to keep up with the increasing child care caseloads. Others, as we mentioned earlier, have reassigned TANF workers as subsidy eligibility specialists. In a few of the study counties, the number of subsidy eligibility staff has actually decreased since 1996.

For instance, in Michigan in 1997, the Michigan Family Independence Agency (FIA) and other state agencies faced drastic personnel reductions that affected both state and local agencies. In Wayne County, the staff of 20 responsible for subsidy policy implementation, interpretation and administration, was cut to one. As a result, local FIA eligibility staff and child care providers have to communicate directly with the state agency, which also experienced dramatic reductions in staffing.

In Indiana, in the summer of 1999, it appeared that Madison County might have to return to the state some of its subsidy allocation even though there was a waiting list for subsidies, in part because of a lack of local organizational capacity to administer the subsidies efficiently.

In Louisiana, where the state is committed to providing subsidies to all eligible families that apply, because of staffing shortages in local offices, families had to wait up to six months to have applications processed.

In Virginia, in the two years after PWRORA was enacted, there was a significant amount of unspent subsidy funds, despite the existence of waiting lists in many counties. The state child care administrator attributed this to ineffective local administration and inadequate staffing levels. (This was not the case in Arlington County, which was well-staffed and had no waiting list). The state used some of the unspent funds to increase the administrative allocation for counties, which seemed to have the desired effect; the state reduced the statewide waiting lists from 10,000 in 1997 to 2,200 in January 1999.

Adequacy of Record-Keeping Systems

Automated administrative systems are often critical tools for social programs that rely on a small number of workers to serve relatively large numbers of individuals and families in an efficient and equitable fashion. In child care subsidy programs, a number of functions can be automated including, for example: determining eligibility and co-payment amounts; locating providers and available child care slots; tracking and monitoring subsidy use; making and reconciling payments; linking state and local agencies and offices; maintaining statistics on providers and families; and preparing reports to meet federal and state mandates.

Throughout the states and local sites in our study, key informants discussed automation as an issue that affects the overall capacity of the state and community to carry out eligibility determination, make payments to providers, and monitor and track payments. In some cases, it was also discussed as a way to make the procedures throughout the state more uniform. While automation has been an issue for some time in many states and communities, increased pressure as a result of the substantial growth in the numbers of families receiving subsidies has made these issues more critical.

One area where automation issues were in evidence in many of the states was in tracking the use of subsidies. For instance, of the 15 states that submitted information to us on child care enrollments in April 1997, April 1998, and April 1999, a substantial number had to rely at least in part on best estimates, rather than on numbers generated by an automated system.

At the county level, almost all of the study counties had access to an automated administrative system that performed some or all of the functions cited above, but the counties varied widely in the level of system development. At the most advanced level, counties had access to systems that were comprehensive in their capabilities and that linked databases across agencies and local and state offices. Most of our study counties used systems that had a limited number of functions and/or limited ability to link information across agencies and agency offices and/or limits to the types of providers covered by the system. Some of those "partially" automated counties had systems that were incompatible across agencies and across local and state offices of the same agencies. Finally, a few of our counties were still using paper-based systems for all or most of their subsidy administration.

With some exceptions, state and county respondents indicated that automated systems helped with subsidy administration. For example, in Tennessee, where a comprehensive statewide system was recently implemented, broker agency respondents indicated that the system has greatly reduced administrative burden and provider complaints, and has improved efficiency. In Harris County, Texas, staff at the local child care subsidy management agency have relatively high worker caseloads of 400 families yet did not feel overburdened, in large part because of the effectiveness of the automated system. Conversely, in some communities in which there were limited or no automated features of the administration of child care subsidies, local agencies often strained under the weight of increased activity since welfare reform.

Although many of the study counties had already been partially or totally automated by the time of the 1996 federal legislation, recent administrative changes have rendered those systems obsolete and even burdensome. One example is Massachusetts, where previously separate subsidy systems have been consolidated under a new state agency. Although an adequate automated system exists for voucher care, contracted centers serving about one-third of families receiving subsidies use a paper system only. The key informant from the Office for Child Care Services believes that it has limited management control over the contracted centers and will not be able to complete consolidation into a uniform program until the contracted centers are part of the automated administrative system.

Another example is California, where two separate local agencies administer child care subsidy programs depending on a family's TANF status. There, Riverside County is developing interfaces between the two agencies' computer systems to allow for a smoother transition for families moving out of TANF but still needing child care subsidies. The need for a comprehensive, integrated administrative system was considered to be so important in Louisiana, key informants indicated, that child care program consolidation is not proceeding until the new automated system is completed.

* * * *

This chapter examined the operation of the subsidy system in states and communities as it affects the families that use it. In the next chapter, we discuss the operation of the subsidy system with respect to the types of care purchased and the providers that participate in it.

Chapter Five: Providers and Subsidies

A goal of the Child Care and Development Fund is to support a wide range of care options for parents to choose, as well as a basic level of quality. The anticipated pressure on the supply of child care created by the expansion of subsidies raised concern that, increasingly, families using subsidies would turn to less regulated forms of care for a number of possible reasons. Among these are: many providers might reject subsidies because of inadequate payment rates and systems; families might feel pressured to choose less expensive forms of care; or demand for regulated care would exceed availability. This chapter addresses the first two of these issues, and Chapter Six discusses the third. More specifically, this chapter describes variation in the distribution of subsidized child care by types of care in the study states, the ways in which these distributions have changed in the period following the passage of PWRORA, and the regulatory and subsidy policies and practices that may be partially responsible for differences in the subsidy patterns. Chapter Six discusses the perceived changes in the supply of regulated child care in the communities in the study and the role that key informants believe welfare reform and the expansion of subsidies played in changes in supply.

Summary of Findings

- **Subsidies purchased different types of care, depending upon the state.** In 1999, in some states, less than 5 percent of children who received subsidies were in relative care compared with more than 30 percent in other states. Center care served more than 70 percent of subsidized children in five of the states and less than 40 percent in five of the states.

- **In the period following the passage of PWRORA, most states did not report a substantially increased use of informal care. Changes in the proportions of the types of care subsidized did not occur in a uniform pattern across states.** For instance, five of the 13 states that reported sufficient data experienced drops in the proportion of subsidized care by relatives, five experienced increases and three had no changes in the proportions. In many of these states, use of center-based care remained the same. In a few states the proportion of subsidized care occurring in centers dropped slightly.

- **Although families have legal access to virtually all types of child care, the extent of subsidy and regulatory requirements imposed on legal providers differs by state and community.** Many states placed significant restrictions on access to non-relative child care in the child's own home. As a result, in half of the states in the study, less than 1 percent of subsidized care occurred in the child's home. Requirements for small family child care homes, relative caregivers, and in-home care (where it is allowed) vary in stringency. Requirements for center-based care also vary, and those states that impose less stringent regulations also tend to purchase higher proportions of center-based care. The greatest variation in regulation is for small family child care homes, which fall under the overall regulatory system in only some of the states.

- **In 11 of the 17 states, payment rates for child care were last adjusted in 1998 or between January and June 1999; these rate changes were often, but not always, based on market rate surveys that took place within 12 months of the rate change.** Payment rates for relative care, which are more difficult to set because such care is not part of the market in the same way as other child care, were at least 80 percent of the full-time family child care rate in 10 of the 17 states.

- **In 12 of the 17 states in FY 1998, subsidy payments were made directly to all child care providers. In the remaining five states, payments were made to parents for relative**

and/or in-home care. Providers also almost always collected parents' co-payments. Even when prompted, few key informants reported issues related to collecting the co-payments, especially compared to difficulties collecting the full fee from parents who did not receive subsidies. Difficulties were more often reported in those states where providers were allowed to charge parents more than the co-payment or where co-payments were a relatively large proportion of families' incomes.

- **The relationship between subsidy policies and the proportions of each type of child care subsidized was unclear**, except, perhaps, in the case of in-home care, the use of which was actively discouraged in some states.

Each of these findings is discussed in more detail below.

To place in context the information on provider issues presented in this chapter, it is important to reiterate the numbers and types of key informants interviewed. Their number ranged from five in some rural communities, to 25-30 in urban areas. They included staff from subsidy agencies, welfare agencies, local child care resource and referral agencies, provider associations, child care quality initiatives, Head Start agencies, and other organizations whose staff were thought to be knowledgeable about child care issues for low-income families. In some instances, key informants included licensed center-based providers and family child care providers who were knowledgeable about the subsidy system. Our interaction with direct providers was limited to these latter situations and to cases in which providers were the representatives of provider associations. It is important to caution that many of the issues discussed here might be viewed differently by the community's child care providers.

Proportions of Types of Child Care Receiving Subsidies

Prior research on parents' selection of care indicates that parents choose specific types of care as the result of a complicated decision-making process that takes into account accessibility, cost of care, and the perceived quality of the arrangements. Some important factors include:

- *The child's age.* Families with very young children often prefer to have their children in the care of relatives or in home settings. Families with pre-school children tend to prefer group settings that allow their children to interact with others and acquire school-readiness skills.

- *The hours of work.* Families that work non-traditional hours or have unpredictable schedules tend to use less formal types of care. This pattern appears to be the consequence of a lack of regulated care that is available during these hours, as well as some parents' preference to have their children cared for at home or in a relative's home on weekends, evenings, and during the night.

- *Availability of different arrangements in the local area.* Parents choose care from among the arrangements that are available either near their home or their places of work.

- *Costs of these arrangements.* The price of care is also a factor that constrains parents' choices. For those low-income families who receive subsidies, this constraint is relaxed depending on the value of the subsidy and the extent to which preferred caregivers are willing to accept the subsidy and its attendant requirements.

The subsidy systems of the states in the study support very different patterns of types of care. Presumably, some of the differences reflect state-level differences in family characteristics, labor markets, child care markets, and the degree to which states have rural areas. It is also reasonable to assume that subsidy policies and practices themselves influence parents' decisions, even when all types of care are eligible to receive subsidy payments. The nature of the data available for this report makes it impossible to isolate the role that subsidies and subsidy policies play in shaping parents' selection of care. Subsequent reports, drawing from the survey of 2,500 low-income families in the study communities, will address these issues.

Overall Patterns

Exhibit 5.1 depicts the proportions of the different types of care supported by each state, and across all states reporting data in April 1999 or for which estimates were available based on their recent reports to the federal government. These numbers were provided by 14 of the states in the study, which were asked to report on all of the arrangements that were paid for with *all* sources of funding used for child care subsidies. Estimates were available from two additional states.[37] We asked the states to be as precise as possible and to indicate whether their reports were generated by their administrative systems, informed estimates, or a combination of the two approaches.

Taking all of these accounts together, when all of the arrangements in all of the states are summed, 50 percent of subsidized arrangements in the 16 states were in centers, 23 percent were in family child care homes, 20 percent were care provided by relatives, and 8 percent were in the child's home with care provided by a non-relative.[38] As the exhibit shows, the average proportions mask tremendous variation among the states. For instance, in Michigan, 17 percent of subsidized arrangements were in centers and 64 percent were in either relative or in-home care. By contrast, 82 percent of arrangements in North Carolina were in centers and 4 percent in relative care. (Only 0.2 percent of care in North Carolina was in the child's home with a non-relative.) For detailed state information on the distribution and growth rates of all types of care, see Appendix Tables 5.1a and 5.1b.

Changes in the Proportions of Care by Type

With the passage of the 1996 legislation, policymakers and others were concerned that welfare reform would result in increasing numbers of subsidized children in unregulated forms of child care, which are predominantly relative and in-home care. However, the states' reports of child care subsidy utilization by type of care show that the anticipated general increase in numbers of subsidized children in unregulated care was not evident in many of the states and communities in the study. The following section shows that, in April 1997, the proportions of children in relative and in-home care differed by state. These proportions grew in some states and shrank in others between April 1997 and April 1999.[39]

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[37] Although New Jersey and Virginia were able to report total subsidy usage, their automated systems were unable to calculate types of care supported by subsidies on an average monthly basis. For these states, we substituted estimates based on their FY 1998 ACF-800 report to the federal government on annual child care usage. California was not able to report total child care subsidy usage. Key informants in California indicated that its FY 1998 ACF-800 did not include child care subsidies that were delivered through the local TANF agencies, and therefore the estimates do not accurately reflect the patterns of use of subsidized child care.

[38] States were not asked to report the type of care by age of child and it is not clear whether the states served different proportions of infants, pre-school and school-age children.

[39] For this section, only states that reported child care subsidy utilization numbers for one or both years. We therefore exclude New Jersey and Virginia, as well as California, from the Exhibits 5.2 through 5.5.

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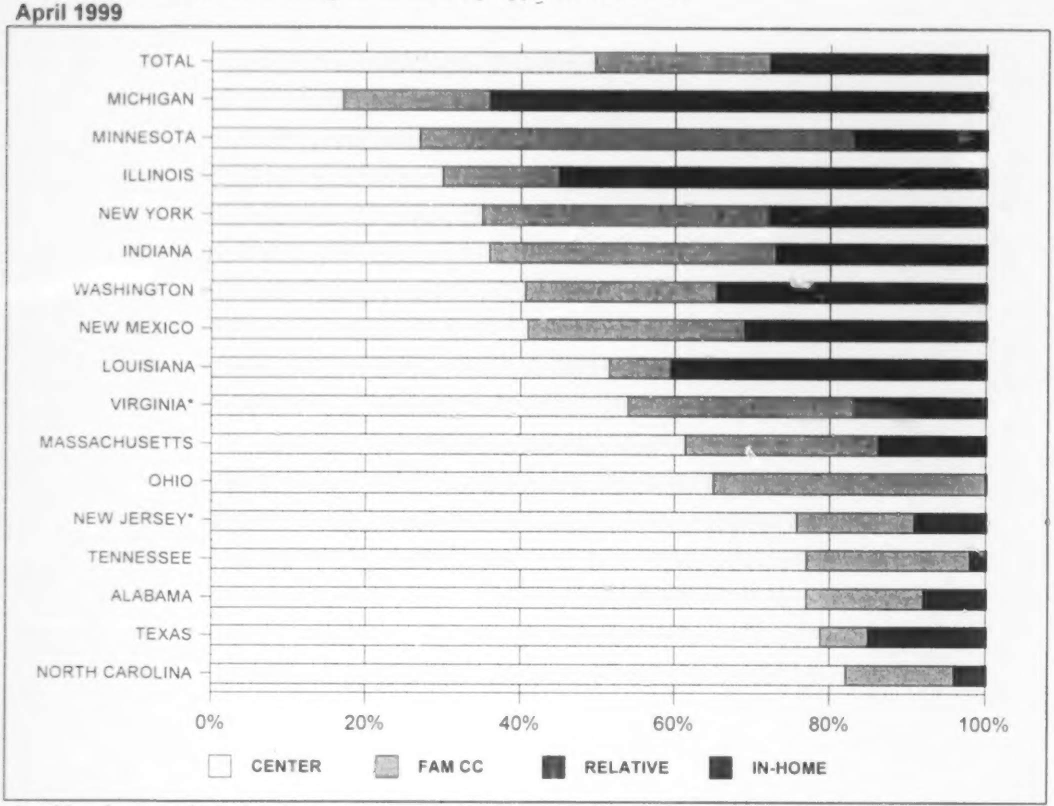
Exhibit 5-1: TYPES OF CARE SUBSIDIZED

Percent of Children Receiving Subsidies By Type of Child Care
April 1999



* New Jersey and Virginia were unable to specify, for an average month, the types of care that were supported. The proportions above are therefore derived from the state's annual report to the federal government (ACF-800) of the types of care supported in an annual, unduplicated count. The most recent year these numbers were available was for FY 1998.

** A similar estimate was not possible for California because a significant amount of child care slots were not included in their federal report on the types of care supported by CCDF (ACF-800), which was not the case for New Jersey and Virginia.

Center-Based Care

The April 1999 data show that, in nine of the 14 states reporting data by type of care, more than 40 percent of subsidized children were cared for in child care centers. Exhibit 5-2 shows that, in four of the 14 states (Alabama, North Carolina, Tennessee, and Texas), over 70 percent of subsidized children were in center care. Only three states (Illinois, Michigan, and Minnesota) had fewer than 30 percent of subsidized children in centers. Appendix Table 5.2 shows that none of the 13 states that reported data for April 1997 and April 1999 experienced a greater than 10 percent increase in the proportion of subsidized children in center care. In three states (Illinois, Michigan, and New York), the proportion of children in center care decreased by more than 20 percent.

Exhibit 5-2: SUBSIDIZED CENTER-BASED CARE

Percent of Subsidized Children in Child Care Centers
April 1997 and April 1999

Percentage Center	1997 # of States	States	1999 # of States	States
15% to 20%	0		1	Michigan
20% to 30%	2	Michigan, Minnesota	2	Illinois, Minnesota
30% to 40%	3	Illinois, Indiana, New Mexico	2	Indiana, New York
40% to 50%	1	Washington	2	New Mexico, Washington
50% to 60%	2	Louisiana, New York	1	Louisiana
60% to 70%	2	Massachusetts, Ohio	2	Massachusetts, Ohio
More than 70%	3	Alabama, North Carolina, Tennessee	4	Alabama, North Carolina, Tennessee, Texas

Data were not available for FY 1997 and FY 1999 for California, New Jersey, and Virginia.
Data not available in FY 1997 for Texas.

Family Child Care

As with other forms of care, the percentage of subsidized children in family child care homes also varied greatly among the states in the study. Exhibit 5-3 shows that, in April 1999, four of the 14 states reporting detailed data (Alabama, Louisiana, North Carolina, and Texas) had fewer than 15 percent of subsidized children in family child care. Three states (Indiana, Minnesota, and New York) had more than 35 percent of children in family child care. Minnesota supported by far the highest percent of family child care—56 percent of all subsidized arrangements occurred in family child care.

The proportion of subsidized children in family child care remained fairly stable between April 1997 and April 1999 in 9 of the 13 states that reported data for both years. In the remaining four states, the proportion of children using such care decreased by more than 10 percent in Alabama and Michigan, and increased by more than 10 percent in North Carolina and Tennessee.

Relative Care

In the 13 states that reported child care subsidy usage data in sufficient detail in April 1999, the proportions of subsidized children in relative care were almost evenly distributed along a continuum. Two states reported less than 5 percent of children being in relative care (North Carolina and Tennessee) and three states reported more than 30 percent of children cared for by relatives (Illinois, Michigan, and New Mexico). Proportions for the remaining states fell somewhere in between the two extremes. For the 12 states that reported child care subsidy data by type of care for both April 1997 and April 1999, the proportion of children in relative care decreased by more than 10 percent in three states (Alabama, North Carolina, and Tennessee) remained relatively stable in four states (Indiana, Louisiana, Minnesota, and New Mexico) and increased by more than 10 percent in five states (Illinois, Massachusetts, Michigan, New York, and Washington.) (See Exhibit 5.4)

Exhibit 5-3: SUBSIDIZED FAMILY CHILD CARE

Percent of Subsidized Children in Family Child Care
April 1997 and April 1999

Percentage Family Child Care	1997 # of States	States	1999 # of States	States
5% to 10%	0		1	Texas
10% to 15%	4	Illinois, Louisiana, North Carolina, Tennessee	3	Alabama, Louisiana, North Carolina
15% to 20%	1	Alabama	2	Illinois, Michigan
20% to 25%	1	Washington	3	Massachusetts, Tennessee, Washington
25% to 30%	3	Massachusetts, Michigan, New Mexico	1	New Mexico
30% to 35%	0		0	
More than 35%	4	Indiana, Minnesota, New York, Ohio	4	Indiana, Minnesota, New York, Ohio

Data were not available for FY 1997 and FY 1999 for California, New Jersey, and Virginia.
Data not available in FY 1997 for Texas.
Of child care occurring in a family home, Ohio's reports do not specify the percentage that occurs in a relative home and the percentage in a non-relative's home.

Exhibit 5-4: SUBSIDIZED RELATIVE CARE

Proportion of Subsidized Children in Relative Care
April 1997 and April 1999

Percentage Relative Care	1997 # of States	States	1999 # of States	States
0% to 5%	1	Ohio	2	North Carolina, Tennessee
5% to 10%	4	Alabama, New York, North Carolina, Tennessee	2	Alabama, Massachusetts
10% to 15%	2	Louisiana, Minnesota	2	Louisiana, Minnesota
15% to 20%	1	Washington	2	New York, Texas
20% to 25%	1	Indiana	2	Indiana, Washington
More than 30%	3	Illinois, Michigan, New Mexico	3	Illinois, Michigan, New Mexico

Data were not available for FY 1997 and FY 1999 for California, New Jersey, and Virginia.
Data not available in FY 1997 for Texas.
Of child care occurring in a family home, Ohio's reports do not specify the percentage that occurs in a relative home and the percentage in a non-relative's home.

In-Home, Non-Relative Care

Six of the 14 states that reported child care subsidy data by type of care for 1999 reported utilization of under 1 percent for in-home, non-relative care. (New Jersey and Virginia, not listed here, reported less than 1 percent use of in-home care in their federal annual reports on child care utilization.) This low rate of utilization is at least in part attributable to policies and practices related to the use of in-home care that will be discussed further in the next section. (See Exhibit 5-5 for proportions of subsidized care that occurs in child's own home.) Of the remaining states, four reported that fewer than 10 percent of subsidized children used in-home care (Indiana, Massachusetts, Minnesota, and New York), and four reported over 10 percent of subsidized children using in-home care (Illinois, Louisiana, Michigan, and Washington).

Exhibit 5-5: SUBSIDIZED IN-HOME CARE

Percent of Subsidized Children in In-Home Care
April 1997 and April 1999

Percentage In-Home	1997 # of States	States	1999 # of States	States
0% to 1%*	5	Alabama, New Mexico, North Carolina, Ohio, Tennessee	6	Alabama, New Mexico, North Carolina, Ohio, Tennessee, Texas
1% to 5%	2	Minnesota, New York	1	Minnesota
5% to 10%	2	Indiana, Massachusetts	3	Indiana, Massachusetts, New York
10% to 15%	2	Michigan, Washington	1	Washington
15% to 20%	1	Illinois	1	Michigan
20% to 25%	1	Louisiana	2	Illinois, Louisiana

* Not allowable (either explicitly or implicitly in these states.)
Data were not available for FY 1997 and FY 1999 for California, New Jersey, and Virginia.
Data not available in FY 1997 for Texas.

The different percentages of children in different types of care across the states in the study raises the question of how these patterns relate to state regulations governing certification, payment rates, and payment practices. The differences between subsidy and regulatory requirements are discussed in more detail below.

Subsidy and Regulatory Requirements for Types of Care

One of the major principles of the Child Care and Development Fund is to provide families that receive subsidies a choice of all legally-available forms of child care. These choices include center-based care, family child care, relative care, and in-home care. However, the legislation also allows states and counties, as a condition for receiving subsidy payments, to impose requirements on child care providers who would otherwise be exempt from state regulation, such as church-based child care centers, relatives, in-home providers and, in some places, small family child care homes. (We refer to the requirements with which all providers must comply, regardless of receiving subsidies, as "regulatory requirements." We refer to those *additional* requirements to which providers must comply as a condition of receiving subsidies as "subsidy requirements.") In fact, the legislation requires that children in care paid for by subsidies must be regulated in terms of the prevention and control of infectious diseases (including immunizations), the safety of building and physical premises, and health and safety training. The states are allowed, but not required, to exempt from these requirements care provided by relatives, and care that is provided in the child's own home. For legally-exempt care, including care by relatives, many states require otherwise unregulated caregivers to undergo self-certification or attest to the fact that these requirements have been met. Some states choose to employ more stringent regulatory or enforcement requirements, such as requiring proof of health and safety training or conducting home inspections to determine environmental safety.

Therefore, while all states and communities in the study give subsidized families legal access to virtually all types of child care, they differ in the extent and type of subsidy, regulatory, and monitoring requirements imposed on providers. The level of requirements may account for some of the markedly varied distributions of the forms of subsidized child care used among the states described above. Some of the subsidy requirements that appear to limit families' effective choice relate to in-home child care. Requirements for small family child care homes, including the requirements of both the subsidy and regulatory systems, vary so greatly from state to state as to make comparisons of subsidy requirements and their effects very challenging. States have a wide range of subsidy and other regulatory requirements for these homes, which vary from self-certification and criminal records checks to quite intense training requirements and monitoring.

Requirements for Centers

In most cases, states have established regulations for center-based care that fulfill the federal health and safety requirements discussed above. In some states, there is a significant proportion of license-exempt center-based care that is supported by subsidies. Many of these programs are located in churches and other religious institutions. Other programs may be exempt from regulations because parents are elsewhere on the premises while their children are in the child care arrangement.

The focus of the data collection in the states and communities was on subsidy requirements and how they fit within the regulatory context. Several other organizations, such as the Children's Foundation and the Children's Defense Fund, have developed state-by-state data on child care regulatory and monitoring practices in the 50 states. These data show wide variation in the levels of center-based regulation. In some states with relatively low levels of regulation (e.g., Texas, Virginia, North Carolina), relatively high proportions of children are in center care supported by subsidies. In part, this might be the result of a greater supply of center-based care in low-income communities in these states. In states where child care centers can enter the market with a much lower investment of resources, there is likely to be a quicker response to increases in the demand for care. (Some states, such as Massachusetts, also remain heavily reliant on contracts with child care centers, which also directly influences the degree to which subsidized families use these forms of child care.)

Four of the 16 states that reported data for April 1999 paid for child care subsidies in center-based programs that were otherwise exempt from regulation. These states included Alabama, Illinois, Indiana, and Minnesota. In these states, the proportion of center-based care in otherwise license-exempt care that was supported by subsidies ranged from 6 percent in Illinois to 16 percent in Indiana.

Family Child Care Requirements

States establish requirements for family child care homes that receive subsidies, within the context of the state's overall licensing and regulatory system, that vary greatly among the states in the study. A basic difference is in the minimum size of family child care homes subject to the state's overall regulatory requirements. Exhibit 5-6 depicts this difference. In three of the states (Alabama, Massachusetts, and Washington), virtually all full-time family child care must be regulated, regardless of whether or not the provider receives subsidies. At the opposite end of the spectrum, Louisiana and Ohio impose no requirements on unsubsidized child care providers, unless they care for seven or more children. Further complicating attempts at multi-state analysis, the state's underlying regulatory requirements range from self-certification, to requirements for training, home inspections, and ongoing monitoring. The task of multi-state analysis becomes even more difficult when subsidy requirements are then overlaid on the states' regulatory systems. At a minimum, the federal CCDF law requires all otherwise unregulated providers who receive subsidies to sign a self-certification that they will comply with minimum health and safety requirements.

As noted before, for non-relative family child care, all states must ensure that providers comply with basic standards related to infectious disease prevention, the safety of the premises, and health and safety training for caregivers. The minimum that states do in these areas for otherwise exempt family child care givers is to require them to sign a self-certification form as a condition for receiving subsidies. For this study, we collected additional information on regulation and monitoring that went beyond this basic requirement.

Exhibit 5-6: SIZE OF LICENSE-EXEMPT FAMILY CHILD CARE HOMES

The Number of Children Allowed in Family Child Care Before Home is Subject to State Licensing and Regulatory Standards (Not Including Relative Care)
June 1999

Number of Children	Number of States	States
0	3	Alabama, Massachusetts, Washington
2	3	Michigan, New York, North Carolina
3	3	Illinois*, Texas, Virginia
4	3	New Mexico, Tennessee
5	2	Indiana, New Jersey
6	1	Louisiana**, Ohio***
Children from only 1 family (not including provider's own children)	2	California, Minnesota

* In Illinois, family child care is license-exempt if the provider cares for three or fewer children (including the caregiver's own) *or* the children from one family (not including the providers' own).

** There are no family child care regulations in Louisiana. Individuals caring for seven or more children must be licensed as a Class A or Class B Child Day Care Center.

*** If all children in care are under two years of age, then the maximum number of children in license-exempt family child care is three.

It was difficult to make comparisons across states, given the differences in subsidy and regulatory policies. To do so, we identified a prototypical family child care provider, unrelated to the subsidized child, to see what was required of her (or him) in order to receive subsidies. Since, in some states, the subsidy requirements were more stringent than regulatory requirements in other states, we focused on the substance of the requirements, as opposed to whether their source was the regulatory or subsidy system. Our provider offers full-time care in her own home for three unrelated children, or she is caring for the children of one family (not including her own children). We investigated the requirements that this provider must meet in order to receive subsidies, regardless of whether the specific rule originated in the state's or community's overall regulatory policy or was only a prerequisite for subsidy receipt. We asked about the following four issues: criminal background and/or child abuse registry checks, home inspections and/or monitoring to ensure the safety of the premises and/or the practice of limiting the spread of infectious diseases, health and safety training requirements beyond self-certification, and requirements for child development training. We also asked these questions for subsidized relative care and in-home child care.

Exhibit 5-7 shows that five states in the study (Illinois, Louisiana, Minnesota, New Jersey, and Tennessee) imposed only one requirement on the prototypical provider; this was usually a criminal background and/or a child abuse registry check. Four of the states (Massachusetts, Michigan, New Mexico, and Washington) had some version of all four requirements. In most of these states, our prototypical provider was subject to the state's overall licensing regulations as opposed to the subsidy requirements. The remaining seven states had requirements from either two or three of the categories. (For detailed information on each of the states, refer to Appendix Tables 5.3, 5.4 and 5.5.)

Of the four states that required our prototypical provider to adhere to rules related to all four areas—child abuse and criminal background checks, monitoring, health and safety training, and child development training—New Mexico is the only state which includes these policies in its requirements for subsidies, as opposed to its underlying regulations for all family child care homes of this size. In New Mexico, to be eligible for subsidies, license-exempt providers must register with the Child and Adult Care Food Program (CACFP). Relative caregivers who wish to receive subsidies must also register with the CACFP. Relative providers in the child's own home were not eligible for subsidies in New Mexico in the summer of 1999, but the practice of allowing such care was being piloted before it was introduced statewide.

Exhibit 5-7: FAMILY CHILD CARE REQUIREMENTS

Number of Areas in which there are Requirements for Subsidized Family Child Care Providers Caring for 3 or Fewer Children*:
a) Criminal Records and/or Child Abuse Background Checks;
b) Home Inspections and/or Monitoring;
c) Health and Safety Training;
d) Child Development Training

Number of Requirements	Number of States	States
1	5	Illinois, Louisiana, Minnesota, New Jersey, Tennessee
2	6	Alabama, California, Indiana, New York, Texas, Virginia
3	2	Ohio, North Carolina
4	4	Massachusetts, Michigan, New Mexico, Washington

* Including family child care providers taking care of children from one additional family.

New Jersey, which has only one requirement, differs from the other states in this group in that it requires preliminary home inspections as a pre-requisite for subsidy receipt, whereas most of the others require records checks. The Approved Home Process, considered an "extraction" from the process of being registered, applies to relatives and non-relatives alike. At this time, approved home providers are not cleared by the Child Abuse Record Information system, although regulated family child care providers must be cleared.

Requirements for Child Care by Relatives

Relative and in-home caregivers must also comply with subsidy regulations in these four categories, but in general they were subject to many fewer requirements than small family child care homes. Exhibit 5-8 shows that five states (Alabama, California, New York, Texas, and Washington) imposed none of the four kinds of requirements on relative providers, and nine of the states imposed only one requirement. Nine of the 17 states indicated that they require criminal background and/or child abuse registry checks for relatives as prerequisite for subsidy receipt. (For detailed state-level information, see Appendix Table 5.8.)

Requirements for In-Home Child Care

As with all other types of care, states are required to make this form of care available to families using subsidies, but, as with other types of care, they also need to consider ways in which to safeguard the health and safety of children who receive this care and to limit instances of fraud and abuse. In-home care is a special challenge for states. In addition to issues relating to safeguarding quality when care occurs in the child's own home, and ascertaining a reasonable and fair payment rate, in-home care providers are subject to the Fair Labor Standards Act as domestic workers. The implication is that they fall under minimum wage requirements and that their employers are subject to the social security payroll tax as well as other employer responsibilities.

Exhibit 5-8: RELATIVE PROVIDER REQUIREMENTS

Number of Areas in which there are Requirements for Subsidized Relative Care Providers:
a) Criminal Records and/or Child Abuse Background Checks;
b) Home Inspections and/or monitoring;
c) Health and Safety Training;
d) Child Development Training

Number of Requirements	Number of States	States
0	5	Alabama, California, New York, Texas, Washington
1	9	Illinois, Louisiana, Massachusetts, Michigan, Minnesota, New Jersey, North Carolina, Ohio, Tennessee
2	1	Indiana, Virginia
3	0	
4	1	New Mexico

In the drafting of regulations for the Child Care and Development Fund, the Child Care Bureau did not provide an interpretation of the law for subsidized in-home care. Rather, it referenced the law, and pointed out that in-home care is an important form of care for families who have multiple children, very young and school-age children, and/or non-traditional work schedules. In its comments on the regulations, the Bureau referred state agencies to the local representatives of the federal agencies whose role it is to implement the FLSA.

The states in the study took a variety of approaches to the treatment of in-home care and the interpretation of the Fair Labor Standards Act in their policies and practices. Therefore, some of the states and counties in the study, including Alabama, North Carolina, and Virginia, have required parents who choose in-home care to agree formally that they will pay the difference between the subsidy rate and the minimum wage, in essence making the cost of in-home care prohibitively high. In other states, such as Ohio and New Mexico, certification of in-home care is legal, but policymakers are concerned about the possible legal implications of subsidizing in-home care and therefore local caseworkers are instructed not to allow it to be used. Other states have not instituted implicit or explicit policies to limit or eliminate its use. The degree to which a state's policies and practices discourage the use of in-home care probably explains the fact that eight of the 16 states that reported data by type of care in 1999 reported either zero or less than 1 percent of subsidized care in non-relative, in-home arrangements — note that 8 of 16 includes New Jersey and Virginia.

Exhibit 5-9 summarizes requirements for in-home care in those nine states where such care is subsidy-eligible and effectively allowed (i.e., where more than 1 percent of subsidized care occurs in the child's own home with a non-relative caregiver). In general, this form of care is subject to the lowest level of regulation, compared with other forms. Five of the nine states (California Illinois, Louisiana, Massachusetts, and Michigan) have only one requirement in the four areas specified for this form of care. Minnesota, New York, and Washington impose no requirements from these four categories. (For detailed information, see Appendix Table 5.5.)

Exhibit 5-9: IN-HOME CARE REQUIREMENTS

Number of Areas in which there are Requirements for Subsidized In-Home Child Care Providers
a) Criminal Records and/or Child Abuse Background Checks;
b) Home Inspections and/or Monitoring;
c) Health and Safety Training;
d) Child Development Training

Number of Requirements	Number of States	States
0	3	Minnesota, New York, Washington
1	5	California, Illinois, Louisiana, Massachusetts, Michigan
2	1	Indiana

Not applicable because in-home care is either explicitly or implicitly unavailable for subsidies: Alabama, New Jersey, North Carolina, New Mexico, Ohio, Tennessee, Texas, Virginia

Certification Processes for Regulation-Exempt Child Care

Not only the subsidy requirements, but also the subsidy certification process for license-exempt family child care and relative providers, varies greatly by the localities and states in our study. Some states, such as California, Massachusetts, Michigan, and Tennessee, require at least some license-exempt providers to appear at the eligibility office with the parent. (The Tennessee manual indicates that this visit allows the child care eligibility workers to determine whether the caregiver is a "trustworthy individual.") Other states, such as Illinois, Washington, and Texas, require parents to return a signed self-certification providing assurances that the space is safe and absent of hazards, the provider is of age, healthy, and has the means to respond to emergencies, including a working telephone. Key informants had mixed opinions about the implications of the relative ease or difficulty of application processes. Some believed that a greater number of steps required of license-exempt caregivers screened out those who were not motivated to care for children, thus screening out potentially poor quality care. Others felt that such requirements had the effect of excessively limiting parents' choices of child care by screening out safe as well as hazardous child care.

Payments to Providers

In addition to making decisions about the health and safety requirements and certifications for providers to receive subsidies, state and local policymakers also must determine payment rates and payment processes. Again, they must walk a balance. Their goals are to enable families to have a choice of providers, yet be able to offer assistance to as many eligible children as possible under current funding constraints. In addition, state and local policymakers must establish processes to ensure that subsidies are paying for services actually being delivered, and that are not administratively cumbersome for either the subsidy agent or the child care provider. The increased flexibility and funding that accompanied the 1996 federal legislation gave states and communities opportunities to address these issues. This section describes payment rates, including those for relative and in-home care, co-payment collection practices, and issues about payment systems.

Payment Rates

A major decision for state policymakers involves setting the maximum payment rates for different types of child care programs in the various markets in the state. The Child Care and Development Fund directs that payment rates must allow eligible children to have access to child care programs equal to that of non-eligible children and regulations stipulate that states must base their rates on a market survey conducted within two years. Previous federal child care legislation stipulated that states could receive federal reimbursements for all child care payments that fell below the 75th percentile of the cost of care, as documented by the market survey. Since that time, many states have continued to compare their payment rates for specific forms of care in different communities against the 75th percentile benchmark. For some forms of care, namely in-home and relative care, states and communities have experienced more difficulty in determining the proper reimbursement rate. Each of these issues will be discussed further below.

With respect to payment rates, states and communities in our study fell into two categories: states where the payment rates were last adjusted in 1998 or in the first half of 1999, and those that were last adjusted prior to 1998. Exhibit 5-10 shows that 11 states had a rate adjustment in 1998 or by June 1999, and six states made adjustments to their rates prior to 1998. (It is important to point out that at least two of the states in the latter category, New York, and North Carolina, adjusted payment rates after the period covered by this study; in other words payment rates were increased between June and December of 1999.) For some states, the rate adjustments drew on market rate surveys that occurred within the previous year, but in other states, the adjustment was based on information that was several years old.

Exhibit 5-10: PAYMENT RATE INCREASES

Timing of Child Care Payment Rate Adjustments

When Payment Rate Last Adjusted	Number of States	States
1998 or January-June 1999	11	Alabama, California, Indiana, Illinois, Louisiana, Minnesota, New Jersey, New Mexico, Ohio, Tennessee, Washington
Prior to 1998	6	Massachusetts, Michigan, New York*, North Carolina*, Texas, Virginia

* Adjustments were made between June and December of 1999.

Provider Rates Adjusted in 1998 or 1999

Of the states that adjusted their rates recently, some did so as part of a routine process, others did so as the last in a series of larger changes in the subsidy system. Examples of the latter include Illinois and Washington, where it appears that payment rates were adjusted after a few years of experience with the financial ramifications of major reforms in their subsidy systems. Illinois instituted a major payment rate adjustment in January 1999, after consolidating all subsidies into one universal program and making a commitment to serve all eligible families. The payment rate increased reimbursements for some child care programs as much as 35 percent. However, despite significant increases, key informants estimated that the new payment rates fall between the 50th and 75th percentile of the market, depending upon the type of care and the area of the state. In Washington, rates were adjusted several times in 1999, as it became clear that funding would be available to meet the demand for subsidies, to address areas where payments were known to be inadequate such as for infant care. In the spring of 1999, information from the 1998 market rate study for Washington was not yet available. Key informants acknowledged that rates were still lower than optimal, but would not speculate on the percentage of the market that was covered.

Some key informants from states that had instituted annual or biennial market rate surveys and payment rate adjustments as part of their ongoing subsidy management processes saw inherent problems with this practice. For instance, payment rates in Minnesota are adjusted every year, based on information from the most recent market rate survey, which often occurs eight or nine months before the rate change. Key informants in Minnesota described problems with this time lag, although it is relatively short in comparison to time lags in other states. The time lag was a particular problem in Hennepin County, where a tight child care market caused child care prices to rise in the time between the survey and the adjustment. The discrepancy between the subsidy rate and the true market price of care was more pronounced in some areas of the county, where prices were uniformly higher.

Provider Rates Adjusted Prior to 1998

In six states, rates were adjusted prior to 1998, and in some cases the adjustments occurred significantly before that. For instance, payment rates in Massachusetts were based on a 1994 market rate survey. Key informants estimated that the maximum payment rate was between the 55th or 60th percentile of the current cost of care. In New York, the last market rate survey was conducted in 1994, but the state was in the process of conducting a new survey in the summer of 1999.

Some of the states that had not adjusted payment rates since before 1998 had plans to do so in the near future. In Tennessee and Texas, rate increases were planned for fiscal year 2000. North Carolina and New York's rate adjustments were scheduled to occur in the fall of 1999.

In some communities, key informants expressed concern about the process for conducting the market rate survey. For some, the issue was that the survey area included a variety of child care markets, so the relative price of the maximum rate is higher in some areas and lower in others. Some key informants questioned the way that the survey questions were worded or believed that some types of providers were systematically excluded from the survey. Other concerns appeared to be more philosophical in nature: for example, the price of care was lower than the true cost of quality care and, by surveying price, rather than cost, the state was undermining "quality."

States and communities also differed in how they handled holidays, child absences, and vacation days. In most of the states, payments were made for at least some of these days, but there were exceptions. For example, in the rural counties in Minnesota (Itasca, Koochiching, and Pennington) providers were only paid for the hours when a parent was working, participating in a state-approved activity, or commuting. In one of these counties, eligibility workers compared a parent's employer-signed schedule of hours worked with the provider's schedule of child care hours provided and adjusted payments each month accordingly. Similarly, Riverside County, California, compares schedules of child care hours against work hours of parents who are in the TANF system.

Payment Rates for Relative and In-Home Child Care

One area of great debate among child care policy makers and other child care experts involves the payment rates for relative and in-home child care providers. Unlike market rate surveys for formal child care, states and localities do not have a clear way to determine fair and reasonable rates for relative care. There is no "market" for relative care as there is for center care and family child care businesses: that is, a "slot" in relative care is not generally available to the public; therefore, the price is not set in competition with similar providers.

This conundrum was reflected in the interviews with many key informants. On the one hand, they wanted to make sure that relative and in-home providers were adequately compensated, particularly if they were foregoing other work to provide the child care. However, key informants feared that if the rate was "too high," it would create incentives for parents to turn to relatives rather than other forms of care, as a way to keep additional resources within the family unit.

With a few exceptions, states ultimately set lower payment rates for relative and in-home care than for regulated family child care, but in 10 of the counties, the rate was at least 80 percent of the rate for full-time family child care for a three-year-old child. Exhibit 5-11 shows that payment rates in 3 of the 25 counties were at least 90 percent of the rate for family child care. In four of the counties (Cook County, Illinois; and the three counties from North Carolina), the relative payment rate was less than 50 percent of the family child care rate. (For detailed information about rates, see Appendix Table 5.6.)

Exhibit 5-11: PAYMENT RATES FOR RELATIVES

Payment Rate for Full-Time Child Care by a Relative
As a Proportion of Rate for Full-Time, Licensed Family Child Care for a Three-Year Old Child

Relative Payment Rate as Percentage of Family Child Care Rate	Number of Counties	Counties
Less than 50%	4	Cook, IL; Alamance, NC; Johnston, NC; Mecklenburg, NC
50 to 60%	3	Mobile, AL; Franklin, MA; Union, NJ
60 to 70%	5	Luna/Grant/Hidalgo, NM; Hamilton, OH; Shelby, TN; Hardeman/Haywood, Fayette/Lake/Lauderdale, TN; Marshall/Coffee/Bedford, TN;
70 to 80%	3	Ouchita, LA; Harris, TX; King, WA
80 to 90%	7	Orange, CA; Riverside, CA; Madison, IN; Hennepin, MN; Itasca/Koochiching/Pennington, MN; Dona Ana, NM; Orange, NY
90 to 100%	3	Los Angeles, CA; Wayne, MI; Arlington, VA

Co-Payments by Families

The maximum subsidy payment rate is a combination of the family's co-payment and the state payment. Some states allow providers to charge parents an extra fee in addition to the co-payment. This practice is likely to occur either when there is a difference between the maximum payment rate and the amount charged to non-subsidized parents, or when state payment practices do not cover absences, holidays, or special fees. As Exhibit 5-12 shows, twelve of the states allow providers to charge more than the maximum payments, while five do not allow this practice.

Exhibit 5-12: COLLECTING MORE THAN THE CO-PAYMENT

Whether Providers Are Legally Able to Collect Additional Charges Beyond the Co-Payment From Subsidized Families

Are Additional Charges Allowed?	Number of States	States
Yes	12	Alabama, California, Illinois, Indiana, Louisiana, Michigan, Minnesota, New Jersey, New York, North Carolina Tennessee, Virginia
No	5	Massachusetts, New Mexico, Ohio, Texas, Washington

Although the practice was allowed in some places and prohibited in others, virtually no key informants had a clear impression of the extent to which parents were being asked to pay additional rates or fees. The practice appeared to be a greater issue for families in communities where the state's maximum payment amount was significantly lower than the true market price for child care. These gaps were either in pockets of more expensive child care within a large area with relatively low subsidy rates or because the rates had not been adjusted for some time. In Hennepin County, Minnesota, some parents were required to pay as much as $60 or $70 a month in addition to their co-payment because of the discrepancy between subsidy rates and the true market price for child care. Key informants acknowledged that, even in states where providers could not legally charge more than the state's payment rate, the practice still occurred.

In most states or localities, co-payments were collected by the child care provider. In a few areas, this practice was monitored by the state, and providers had to indicate that the co-payment was collected each month. In California and New Mexico, the subsidy agent collected the co-payment. In the states in which co-payments were not closely monitored or collected directly by the subsidy agent, key informants almost uniformly noted that providers were reluctant to report parents' delinquency in making the co-payments if it meant that the subsidy would be cut off. For this reason, very little information existed on the degree to which parents were or were not making co-payments and to which providers. However, key informants in most communities did not believe that providers experienced much difficulty collecting the co-payments. Typically, it was a greater problem with parents at the higher end of the eligibility scale who had relatively high co-payments.

Issues Related to Payment Systems

In addition to the rates themselves, the accuracy and efficiency of payment systems greatly influence the degree to which subsidy payments are acceptable to child care providers. In general, child care providers operate with very limited cash flow. Even though most child care providers ask for *prospective* payments from non-subsidized families, virtually all states pay *retrospectively*, placing a burden on many small providers. Additional issues, such as a long interval between when care is provided and when payment is received, or a lack of authorization to provide care that results in a nonpayment, make subsidies undesirable for some providers.

Issues with Payment Processes

In the many of the communities in the study, key informants believed that the payment process was now working smoothly, although frequently there were discussions of payment issues in the recent past. In most of these states and communities, it was standard practice to pay providers every two weeks. There were more issues in communities that did not have automated payment processes, or in communities where the expansion of the subsidy system meant that less technically sophisticated payment systems could not match the increased demand. There were also issues when county offices suffered temporary staffing shortages, as in Louisiana.

In some areas, especially those where families relied heavily on license-exempt forms of child care, growth in subsidy use meant a greater number of new providers who were unfamiliar with the payment systems and payment rules. Key informants in Hennepin County, Minnesota, saw this as being a major cause of recent problems with the payment system. For some of the new providers, key informants believed that the implications of receiving money from the state (such as the need to file federal and state taxes) were not fully understood.

In counties or states with more than one subsidy agent and more than one system, key informants reported more confusion. This was particularly the case in the California counties, where there were multiple payment systems, many of which were relatively new. In Hennepin County, Minnesota, providers who care for children from income-eligible families can be paid either through the County Department of Social Services or through the CCR&R, depending on where the family accessed subsidies. Confusion decreased when both subsidy agents in Hennepin County shared the same computer system and could direct providers to the appropriate agent.

Problems involving communication between providers and subsidy agents were also sometimes reported. In some communities, there was confusion about the period during which families were eligible for subsidies. This appeared to be more often the case in areas where families were at greater risk of losing their subsidies because of failure to report income periodically or when reapplication was necessary as they moved from one eligibility status to another. In King County, Washington, providers did not receive timely information about when the authorization period officially began; nor did they receive reminders when families needed to return to the local welfare offices for recertification. Because of these and other issues, the state was piloting a new automated system at the time of the study. In other communities, it was the parent's responsibility to communicate to the provider the child's subsidy eligibility status.

Payments to Providers or to Parents

State subsidy payments can be made to the provider directly or to parents, who then pay the child care provider. In the past, many providers reported problems receiving subsidy payments when parents were paid by the state and then were supposed to reimburse providers. However, at this time, in virtually all communities in the study, virtually all regulated providers were paid directly by the state. In five of the 17 states, families using relative and/or in-home care received the child care payment and were responsible for reimbursing the provider. This was the situation in Washington and New York. In Michigan, parents using in-home providers were given two-party checks. One reason that parents receive payments directly for these types of care is because state policies reinforce that with the choice of these types of care, the contractual arrangement is between the provider and the parent, as opposed to the provider and the state. Therefore, the subsidy payment would most appropriately go to the parent.

* * * *

This chapter and the one that preceded it examined the operation of the subsidy systems in states and communities. The policies, practices and requirements that states and communities adopt with respect to subsidized care affect the degree to which subsidized families have access to the existing local market. Even if subsidies allow families more choice, by removing or reducing some of the cost constraints, their choices are still limited to the types and quality of care available, in their communities. The ways in which the states and communities in the study try to influence the supply and quality of care available in local markets is the subject of the next chapter.

Chapter Six: Addressing Child Care Supply and Quality Issues

Among the concerns of child care advocates about the effects of welfare reform was whether the supply of child care would be adequate to meet the needs of the anticipated influx of TANF recipients, and others who were now receiving child care subsidies, into the labor force, both in terms of the absolute amount of care available and the quality of the care. This chapter deals with these two related topics: perceived supply problems in states and communities and the nature and extent of state efforts to improve both the supply and the quality of existing care. It addresses the following questions:

- How has growth in the use of subsidies affected the supply of care? Are there types of care that are in short supply?
- What kinds of investments are states making in quality improvement and supply enhancement? How are quality funds allocated and how is the allocation strategy decided upon?
- What kinds of initiatives are funded with quality funds? To what extent are these initiatives focused on care for low-income families vs. child care generally?

Summary of Findings

- **While state and community informants believed that parents entering the workforce were generally able to find child care and they did not see the anticipated effects of welfare reform on the supply of regulated care, in many instances they reported on long-standing shortages in supply. Reported shortages were often in low-income neighborhoods or in types of care used more heavily by low-income families.** Informants adduced indirect evidence (e.g., that TANF clients were not being exempted from work requirements because of inability to find child care), rather than direct evidence gathered from parents, to support their conclusion that the supply of child care had been adequate to meet the increased demand. Shortages in the supply of regulated care were reported, especially in low-income neighborhoods, for specific populations (e.g., infants and toddlers, children with special needs), and to accommodate unorthodox work schedules.

- **Pressures created by a strong economy, rather than those exerted by welfare reform, were blamed for shortages in the supply of child care.** In at least four major urban counties, jobs created by a strong economy placed dual pressures on supply, by drawing child care providers into better-paying jobs while simultaneously increasing the demand for child care on the part of families at all income levels.

- **While there is wide variation in states' investments in child care, those investments, and states' discretionary spending on quality and supply enhancement, increased substantially over the last two years.** While states with the highest per child spending spent five times as much as states with the lowest, even those states with the lowest per child spending had more than doubled their investment in quality enhancement initiatives over the period 1997 – 1999

- **In most states, funds for quality initiatives are allocated at the state level, and are used for a wide variety of programs and activities, most of them small in scope.** While the public may be involved in the planning process, for the most part, decisions about the use of quality enhancement funds are made at the state level. With the exception of some statewide efforts to improve licensing and monitoring activities, or to support the work of CCR&Rs, quality enhancement funds are used to address a variety of needs identified by specific communities, and often fund quite small efforts. There was little evidence of their use to put into effect a centralized strategy to attack problems of supply and quality.

- **Few initiatives were identified that targeted child care used by low-income families.** Quality monies are broadly rather than narrowly-targeted and only occasionally aimed at increasing supply in low-income communities specifically, or targeting the license-exempt providers used disproportionately by low-income families. (This is keeping with federal law in that the quality set-aside funds are directed to increase the supply and improve the quality of care in general and not specifically for low-income families.)

- **Efforts to stimulate supply may not result in increased supply, but may simply counterbalance attrition cause by strong market forces, particularly among family child care providers.** It was unusual for states or communities to have evidence of an increase in supply that took into account the corresponding attrition. Where this evidence was available, it suggested that efforts to increase supply may simply succeed in maintaining constant the number of child care slots available.

Shortages in the Supply of Child Care

The discussion that follows is based on interviews with a large number of respondents at both the state and community levels and reflects their perceptions about the adequacy of and gaps in the supply of child care. These perceptions are rarely supported by evidence gathered from consumer or employer surveys. In subsequent reports we will address questions about supply through analyses of data on licensed care, collected from CCR&Rs, and data on parents' difficulties in finding the type of care they want and reasons for choosing specific types of care, drawn from the Community Survey which was described briefly in Chapter One.

The questions posed to respondents at state and local levels investigated problems in the general supply of care, as well as gaps in specific types of care, and, in particular, whether supply problems created barriers for low-income parents who were working or in school. States have, for some years, wrestled with the kinds of problems discussed here, and the overall sense among our respondents was that welfare reform had not, on the whole, created the kinds of supply problems that had been envisaged.

Without addressing the quality or stability of the care used, most respondents noted that families leaving welfare for work, as well as other low-income families, were able to find child care that supported their work-related needs. As an example of the ability of the child care market to meet increased demand by low-income parents, a key informant in Harris County, Texas, noted that, when parents on TANF with four-year olds were required to participate in work activities (earlier they were exempted) an additional 7,000 TANF clients who were required to work found child care, with no reported problems. In other counties, a similar point was made, that few if any exemptions from work requirements had been granted to TANF clients on the basis of their inability to find child care. However, we should note that informants were not asked whether TANF clients were routinely informed about their protection from sanctions, if they had a child under 6 and were unable to find child care. In Louisiana and Massachusetts, key informants reported that the increase in subsidy funds generated new child care providers and child care slots as well as increased demand.

While one pressing concern for TANF and other state administrators (that families might be prevented from entering the workforce because of inability to find child care) has not been realized, evidence from a recently-completed survey of child care consumers in Massachusetts suggests that low-income families, in particular, may be forced by the costs of other forms of care, or the types of care available in their communities, to rely on informal care arrangements. The survey showed that almost half of low-income

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working families used informal care arrangements compared with less that one-quarter of families with annual incomes over $80,000. While some irreducible portion of these families may genuinely prefer relative care for infants, for example, or have work hours that do not coincide with those of center-based care, the difference in the two groups is probably attributable in part to the greater ability of middle-class parents to find and afford regulated care.

In four major urban communities (Cook County, Illinois, Wayne County, Michigan, Orange County, California, and Hennepin County, Minnesota) where respondents identified a general shortage of child care, it was attributed to the strong economy, rather than the pressure of welfare reform. The jobs created by a strong economy put pressure on the supply of care in two ways: by increasing the general demand for care, by families at all income levels; and by drawing child care staff and family child care providers out of child care and into better-paying jobs. In California, the class-size reduction initiative, a state-wide mandate to reduce class size in the public schools that requires hiring additional teachers, has enticed many qualified early childhood staff into the elementary schools, and much higher-paying jobs.

The shortage of regulated care seemed acute in Cook County, where a recent needs assessment study reported that, of children in working families who are eligible for child care subsidies, only 18 percent are being cared for in full-day licensed facilities. Eleven critically-needy neighborhoods were singled out in the report as having the fewest regulated child care slots available, and in which only 6 percent of subsidy-eligible children were receiving care in licensed facilities.

In other counties, respondents suggested that the shortages were more acute in low-income pockets of the county, especially in center care. In Hennepin County, informants suggested that this type of shortage may be related to the inability of centers in low-income areas to survive economically. Unless most of the child care slots in these centers are subsidized, low-income families probably cannot afford the center fees. To survive over a number of years, some centers need assurance that a sufficient number of slots will be subsidized, a need met by the system of contracted care that continues in California, Illinois, Massachusetts, New Jersey and New York.

Shortages in Specific Types of Child Care

Respondents in almost all the study counties described chronic shortages in certain types of regulated care: care for infants and school-age children; care for children with special needs; sick child care; and care during non-traditional hours and holidays.

The most frequently reported shortage was in care offered for non-traditional hours, i.e., evenings, nights, weekends, holidays, as well as care that accommodates variable and swing shifts. For families leaving welfare, and for other low-income families, this is often the kind of care that their work schedules require. Key informants reported that efforts by centers to offer care during non-traditional hours, particularly those open 24 hours, have often been unsuccessful. In Indiana, North Carolina and New Jersey, for example, centers that offered extended-hours or 24-hour care could not attract families. In other communities, centers have not responded to incentives offered for the provision of care during non-traditional hours. Corporate Hands, a Texas business collaborative to help provide child care for employees, set up a 24-hour child care facility in a Houston hospital for children of the hospital staff, but it was not used. Parents explained that they "didn't want their kids spending the night in an institution."

There were a few exceptions: in Los Angeles, at least one center successfully offered care until 9 PM and on Saturdays (normal center hours are 6AM to 6 PM, weekdays only). The center is one of nine pilot sites offering non-traditional child care hours at schools that have adult skill centers. As a result of the child care pilot effort, the schools have seen a large increase in enrollment at the skill centers. A center in rural Minnesota was able to offer 24-hour care to accommodate parents who worked swing shifts because it received foundation support and was not completely reliant on subsidies and parent fees. Without such support, the demand was not sufficient to cover the center's expenses, at the fees they would need to charge.

The perceived gap in supply was almost as great for regulated infant care. Fourteen of the 25 counties reported a shortage of infant care, regardless of family income. One state, New Jersey, reported success in creating significant numbers of new infant/toddler spaces. Stimulated by New Jersey's Work First requirement that a parent must be employed or engaged in work activities when her baby is 12 weeks old, the effort created 3,500 new spaces for infants and toddlers in a year. Although the net gain in spaces is likely to be less, because of the attrition of existing providers or slots over a year, this appears to be a substantial increase.

Care for children with special needs is perennially in short supply and any increase in demand is less attributable to welfare reform than to the increasing numbers of children with behavioral problems and of children with asthma and other chronic illnesses that require careful management. Key informants mentioned this as a specific need in only eight counties, however, it is likely that other informants would have indicated it as a need if specifically prompted or if a different key informant had been interviewed.

In most counties, school-age care was not identified as a problem although, for parents who work during school hours, care during school vacations was sometimes scarce. In addition, in Union County, New Jersey, where respondents identified a shortage of school-age care, they noted that this scarcity became more pronounced in low-income communities when work participation requirements rose to 35 hours a week, making it impossible for parents of school-age children to fit their work schedule into school hours.

A small number of counties specifically identified a shortage of care for sick children (i.e., mildly ill children); however, like care for children with special needs, this has been an area of shortage for some time, and probably exists in other communities.

As we noted earlier, most of our informants based their response to questions about child care shortages on personal observation and informal reports from parents, provider groups and others. In three of the counties -- Riverside and Orange in California and Cook County, Illinois -- responses were based on recent needs assessment studies. What was striking in these cases was that the studies pinpointed both the specific types of care in short supply, and neighborhoods or areas within the county with gaps in supply, allowing them to target efforts to increase supply quite specifically.

State Investments in Supply and Quality Enhancement

There are many ways in which states can influence the quality of child care. The first, and most obvious is through the licensing and other regulatory standards they impose on providers and the extent to which they monitor adherence to those standards. These standards set a floor on the quality of regulated care in the state, but have little effect on unregulated care. Some states encourage providers to move beyond the basic level of quality through a tiered reimbursement system. In such a system, providers who can demonstrate adherence to a higher set of quality standards receive higher rates of payment for state-funded children. If providers use the same rates for other children, the increased cost may put higher-quality care out of reach for many families that are ineligible or eligible but not receiving subsidies.

The second type of major investment that states make is in preschool education, either by allocating funds to Head Start or by funding a state preschool program, as many states now do. These investments, while they are important are not the subject of this discussion. The regulation of providers who receive subsidies was discussed briefly in Chapter Five. State investments in Head Start and preschool will be a topic of a later report. This discussion looks at the additional efforts to support quality and enhance supply that are mandated by the CCDF and that, in many instances, continue initiatives already begun by the states.

States must set aside a minimum of 4 percent of their CCDF block grants for expansion and to improve child care quality. Many states have opted to commit additional state resources for these purposes and, as Chapter Two showed, these investments have increased over time. Quality set-aside funds may be, and usually are, used to expand supply and improve quality for all children, regardless of family income. Exhibit 6-1 shows states' per capita spending on quality improvements for FY 1998.[40] The table shows wide variation in the levels of state investments for the 15 states that reported financial data; Minnesota, with per capita spending of $15.53 spent more than three times the amount per capita that the states at the lower end of the table spent. This reflects a one-time increase in 1998 in response to welfare reform. Ongoing spending is closer to $9.32 per child. These differences are not explained by differential investments in preschool programs. Although several states with lower per capita spending on quality also invested in preschool programs (a notable example being Ohio, with a heavy investment in Head Start), all of the states at the top of the table also invested in state preschool programs.

Exhibit 6-1: EXPENDITURES ON QUALITY IMPROVEMENT

Per Capita Spending on Quality Improvement and Supply Enhancement*

State	Adjusted Expenditures per child	State	Adjusted Expenditures Per Child
Minnesota	$15.33	California	$7.56
Massachusetts	$13.08	Alabama	$7.43
Illinois	$12.45	Ohio	$5.48
North Carolina	$9.70	Michigan	$5.31
Washington	$9.29	Texas	$5.11
Indiana	$9.10	Virginia	$4.65
Louisiana	$8.79	New Mexico	$4.52
Tennessee	$7.78		

* Data were not available for New York and New Jersey.

Allocating Expansion and Quality Funds

In the majority of the 17 states, planning for the use of quality monies and the allocation of quality funds occurs at the state level. This is not to suggest that there is no local input into the plans. Many of these states engage the public in the planning process through public hearings and wide circulation of draft plans for public comment. In addition, in states such as Minnesota, where a substantial portion of the quality funds goes to CCR&Rs across the state, these local entities are charged with setting priorities for the use of the funds and distributing some of the money in the form of small grants to other local institutions. In three states, a portion of the quality money is allocated at the state level, but allocation of the larger portion is done at the local level, by a local advisory board. In two states, responsibility for allocating quality money is completely locally-controlled.[41] Exhibit 6-2 shows where responsibility for the planning and allocation of quality improvement funds resides.

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[40] The denominator for the estimates of per capita spending on quality is a simulation estimate by the Urban Institute of children aged 0-12 (and children on SSI through age 19) with parents working outside the home. The estimates of per capita spending have been adjusted by the relative labor costs of care in each of the study states.

Exhibit 6-2: ADMINISTRATION OF QUALITY FUNDS

Responsibility for Planning and Allocation of Quality Improvement Funds

State plans and allocates funds	Responsibility for planning and allocation of funds is divided between states and communities	Responsibility for planning and allocating funds is at the local level
California	Indiana	Alabama
Illinois	Ohio	Texas
Louisiana		
Massachusetts		
Michigan		
Minnesota		
New Jersey		
New Mexico		
New York		
North Carolina		
Tennessee		
Virginia		
Washington		

The outcomes of these planning processes were quite similar across all of the study states. With the exception of some efforts at the state level, such as an automated registry system for family child care providers, or licensing system improvement, most of the quality funds were disbursed among many small projects, using a variety of different strategies, and with widely differing goals, to address local needs.

Use of Quality Funds to Improve Quality and Increase Supply

States and communities address several different problems with dollars for quality improvement. First, they are concerned with the quality of existing, regulated facilities and providers, and the perceived career opportunities for providers; secondly, they have identified gaps in some types of child care. In some places, the perceived gaps may be in the general supply of licensed care. Even if the general supply is sufficient at a specific time, the steady attrition of licensed family child care providers means that constant efforts must be made to refresh the supply or find a way to stem attrition. In addition, most states and communities believe there are shortages in care for specific populations, for example, care for infants, toddlers and school-age children, for children with special needs, or for children whose parents have irregular or unusual work schedules. Given the reality that a substantial portion of child care is provided in informal settings by relatives or friends in their homes or the children's own homes, some states are concerned about how to enhance the quality of this type of care Finally, another concern for states is the extent to which parents know how to find appropriate care or what they should be looking for in a care arrangement.

They address these issues in a variety of ways that they hope will directly or indirectly affect the quality of care. To improve the quality of existing facilities, states and communities may: provide grants and loans to improve facilities; offer free or reduced cost training for providers and child care staff; offer financial incentives for providers who complete degree courses or achieve certification or accreditation; provide non-financial resources and professional development activities, e.g., technical assistance, hotlines, newsletters, provider associations, networks or registries.

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[41] Alabama will centralize allocation of funds at the state level this year.

To increase the general supply of licensed care, states and communities may offer grants or loans for start-up and/or recruit and train new providers and guide them through the licensing process. To increase and improve the supply of care for specific populations, they may offer specialized training for providers and/or bonus or incentive payments for providers who agree to provide off-hours care or care for children with special needs, for example.

To inform consumers, most states provide some funds to Child Care Resource and Referral agencies. They may also undertake public education campaigns. To reach out to informal care providers, states and communities may fund efforts such as toy lending libraries, distribution of health and safety kits or provision of training in child development.

Most states fund a wide variety of these activities through small grants, and usually allow individual communities to select activities and programs that meet their unique needs. For example, a community where most of the low-paying jobs are in industries (hotels, hospitals, etc.) that require off-hours work may choose to focus on increasing the supply of that kind of care. Another community, faced with a large influx of immigrant families, may need to find ways of developing culturally-appropriate and acceptable care for several disparate groups. Below, we describe the kinds of activities supported by quality funds and provide illustrative examples. Although we discuss quality enhancement and supply-building initiatives separately, in truth there is no clear distinction – many of the initiatives discussed below serve both ends equally.

Enhancing Quality

As noted above, states and communities may improve the quality of existing care by funding facility improvements, providing or subsidizing training for providers, offering monetary incentives for additional educational attainment or certification, or offering non-financial resources for providers.

Funds for Physical Improvements to Homes and Centers

Aspects of the physical facility may prevent a provider from becoming licensed or from serving younger or disabled children. Funds might be used to do minor remodeling and repair to help providers comply with state and local licensing and safety requirements, for example, to have lead paint removed, to enclose a furnace, to install running water in rooms for infants and toddlers or to provide disability access. Scarcity of materials or equipment may inhibit a provider's ability to provide a developmental experience for children in her care. Quality funds might be used to purchase outdoor play equipment or materials to enhance children's activities. In Massachusetts, an initiative targets relative care and offers providers smoke detectors, first aid kits, emergency telephone numbers, etc.

Free or Reduced-Cost Training for Providers and Child Care Staff

To assist child care staff, who are low-paid workers, in obtaining training, many states fund free or low-cost training or give funds directly to child care staff and providers either as scholarships or as reimbursement for training expenses. In California, for example, the University of California at Davis Family Child Care Program provides training on quality and safety issues to licensed family child care providers in all 58 counties in the state. Participants who complete the series receive continuing education credit from UCD and a $30 gift certificate for day care learning materials. California also provides training to providers via television through seven public TV stations. Each station has set up a network of trainers to offer support and refresher training to providers. Louisiana has a similar distance learning project for providers, with course credit for those who complete it. In Massachusetts, the Office of Child Care Services provides funding for child care staff to pursue a Child Development Associate (CDA) credential. The state has recently focused some of its own training efforts and supported access to private training resources to enhance providers' ability to deal with children with behavioral problems. In a number of states, CCR&Rs offer provider training and also administer scholarships that enable providers to receive training offered by other entities.

Tiered Reimbursement Rates

As increasing emphasis is placed on the importance of quality child care, some states have moved to support provider efforts to increase the quality of care through differential reimbursement rates. Differential payment rates are paid to providers or child care staff who attend training, earn a degree or other certification or significantly improve quality through other means. North Carolina, for example, has several of such programs. Two of them are the state's Rated License System, through which centers receive higher payment rates if they improve staff educational standards, score well on a rating of the child care environment and maintain a good compliance record. North Carolina's **T.E.A.C.H** program, which has also been adopted in Illinois and Indiana, is an umbrella for a variety of programs that offer tuition assistance and link increased educational attainment to increased compensation. One program that seems to be more targeted to providers who serve low-income families is Michigan's Incentive Payments for Training of Relatives and In-Home Aides, administered by the Michigan 4C Association. Differential rates are also used as incentives to provide care that is in short supply, such as care during non-traditional hours, or that requires additional provider training and expertise, such as infant care, or care for children with special needs.

Eleven of the seventeen study states offered differential reimbursement rates. Of the eleven, only five (Louisiana, Michigan, New Jersey, New Mexico and North Carolina) offered higher reimbursements rates for NAEYC-accredited or otherwise certified providers. Most frequently, differential rates were used to compensate providers who cared for children with special needs or children receiving protective services child care (Exhibit 6.3).

Non-Financial Resources for Providers

In addition to the financial assistance and incentives that providers can receive for additional training, states and local agencies provide a variety of non-financial assistance to providers to enhance the quality of children's activities or the caregiver's understanding of health, safety and developmental issues. These include lending libraries and resource centers, mobile classrooms, mentoring programs, leaflets, brochures and newsletters, and videos and curriculum materials. They may also include different kinds of technical assistance and telephone hotlines. These kinds of initiatives focus on family child care providers, sometimes specifically on informal care providers. A slightly different kind of assistance is offered to providers by Indiana's Score, a service corps of retired executives who help providers with the business aspects of child care, including how to access loan funds. Massachusetts provides a similar service for providers.

Four states, California, Illinois, Massachusetts and New Mexico, fund activities designed to link family child care providers and child care staff to national organizations or to each other, to receive newsletters and establish networks.

Exhibit 6.3: USE OF TIERED REIMBURSEMENTS RATES

States with no differential rates	States with differential rates	Notes
Alabama Illinois Minnesota Tennessee Texas Virginia	California	For providers receiving the Regional Market Rate, the state pays 1.36 times higher rates for care provided during nontraditional hours and 1.5 times higher rates to children with special needs. For providers receiving the Standard Reimbursement Rate, the state pays rates 1.2 times higher for Exceptional Needs, 1.1 times higher for Limited or Non-English Proficient, 1.1 times higher for Children At Risk of Abuse or Neglect, and 1.5 times higher for Severely Handicapped.
	Indiana	Special needs rates of up to 10% above the market rate may be paid to providers caring for children with special needs.
	Louisiana	Higher rates are paid to providers servicing children with special needs. Also, "incentive payments" are paid to Class A centers with NAEYC accreditation for care they provide to subsidized children.
	Massachusetts	Higher rates are paid for programs delivering more comprehensive services such as child care to protective families, court based child care, and services to teen parents and their children. Base market rates are utilized on the costs of additional services are either based on budget negotiations or estimated costs.
	Michigan	Higher reimbursement for trained relative and in-home caregivers.
	New Jersey	Pays 5% more for accredited providers.
	New Mexico	Until this year, the state tried to promote quality by paying higher rates ($1.50/day at the Silver level and $3.00/day at the Gold Level) that voluntarily exceed minimum quality requirements. As very few providers applied for Silver or Gold reimbursement rates, the 3-tier system will be eliminated as of 7/1/99 & a new system, Aim High, put in its place, designed to encourage providers to obtain accreditation will be pilot tested. Aim High will establish 5 levels, or steps, needed for a provider to obtain accreditation. The state has hired a program development specialist to work with providers in the design of this system. The state will help providers with the costs of reaching each of the five levels (they will pay for training, but not capital improvements). Working w/providers, the state is looking at the average costs associated with the attainment of each level. It is anticipated that only the higher levels will carry a differential reimbursement rate.
	New York	Higher rates for infants and special needs care.
	North Carolina	Level of quality/licensing standards met by the provider: Category B providers with an "AA" license can receive an incentive payment. In order to receive an "AA" license, the provider must be eligible for the market rate and meet higher voluntary licensing standards. These providers may receive 110% of the county market rate, or the rate charged private paying parents, whichever is lower. Other providers meeting higher than required standards may receive enhanced payment rates above the market rates through state Smart Start Funds. This applies to either center-based or home-based providers who opt to meet higher standards of licensure or certification. At the time of the research, proposals were also under consideration that would provide enhanced payments to child care providers who volunteer to meet higher licensing levels and receive a 2-5 star rated license (this system has since been implemented).
	Ohio	Higher rates for special needs and protective services.
	Washington	Higher rates for nonstandard hours and special needs.
6 States	11 States	

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Efforts to Increase Supply

States and communities use both financial incentives and recruitment and training strategies to increase the supply of regulated child care.

Financial Incentives

A number of states use a combination of grants, loans or contracts to stimulate the supply of both center care and licensed family child care. The level of financial assistance that these grants and loans provide varies greatly. Recognizing the barriers created by initial capital expenditures, states such as Illinois, California, Massachusetts and Minnesota, among others, have set up revolving loan funds, sometimes managed by the state, sometimes privately managed, to cover purchase of a building or land to create a new facility or expand an existing facility. An example is the Illinois Facilities Fund, which worked with the Illinois Department of Human Services (IDHS) to build seven new child care centers with funding from tax-exempt bonds. IDHS has purchase-of-service contracts with the agencies that operate these centers, to ensure subsidies for the newly-created child care slots. Illinois makes two payments a year to the Illinois Facilities Fund to reduce interest debt. These are substantial investments in a small number of providers.

At the other extreme are small grants to new family child care providers to cover one-time costs associated with meeting licensing standards, that may be used to pay for minor modifications to make the home safer, or to purchase toys and equipment. Minnesota was the only state in the study to earmark incentive grants for informal family child care providers. The rationale for focusing on this type of care was that the state expected welfare reform to generate increased need for this type of care and hoped to strengthen and support it as well as stimulate the supply.

Grant and loan assistance is also provided to encourage new or existing providers to offer care for infants, school-age children, children with special needs or care during non-traditional hours. A grant to assist child care centers in extending the age of children served downward to include infants might include the cost of equipment and materials, but might also pay for some minor architectural renovation or repairs to meet health and safety standards. Washington was the only state in the study that reported paying a one-time bonus of $250 to providers who agree to provide infant care. In addition, Washington pays an additional $88 a month for care during non-traditional hours. Illinois offers a rate supplement to regulated providers who enter into new contracts to provide off-hours care.

Recruiting and Training New Providers

Recruitment and training activities may be designed to increase both the general supply of child care or to build the supply of scarce types of care, such as infant care. While only a few states took this approach to increasing the supply of scarce types of care, most respondents felt that providers' lack of specialized knowledge with respect to care for children with special needs and infant care was often the major barrier preventing them from offering these services.

Only two states and one county reported recruitment and training initiatives focused specifically on TANF recipients. In Washington, the program, called TANF 250, received $1 million with a goal to recruit and train 250 new child care providers from the TANF rolls. One key informant reported that finding individuals who were both motivated and suitable candidates was proving difficult. Another informant reported that the program had proved useful in identifying a group of Somali women who could provide much needed care within their new immigrant community.

Incentives for or Assistance in Becoming Licensed

Recognizing that many providers need either financial help or technical assistance or both in order to proceed though the licensing process, a few states provide this kind of help, most notably California which has three different programs to assist both center staff (in obtaining a Child Development Permit) and family child care providers. Massachusetts, in partnership with the Latino Family Child Care Association, has an initiative to provide assistance to in-home and relative care providers in becoming licensed family child care providers. New Mexico and Tennessee have similar outreach efforts to informal care providers.

There was little evaluation of these strategies, and though state and local informant could often provide, for example, the number of new family child care providers recruited over a period of a year, they were only sometimes able to assess the net gain once attrition had been taken into account. In some cases, when they were able to compare the numbers, there was no net gain; in King County, Washinton for example, an initiative to recruit and train family child care providers produced 900 new providers in a year, a number which exactly matched the number of providers who stopped caring for children in the same period. The county respondent saw the activity as essential in order to keep the supply constant, rather than to increase it. Frustrated by the lack of information about the relative success of their grants projects, Minnesota is developing a Child Care Grants Outcomes Project that will provide them with some of this information.

Consumer Assistance and Education

While the CCR&Rs in most states have consumer education and assistance as their core service, states fund a variety of other consumer education initiatives. These usually take the form of leaflets, brochures, toll-free numbers designed to raise parents' awareness of quality issues and their importance. Several of the states in the study had developed brochures to inform parents about child care subsidies and who might be eligible for them. Public education campaigns are aimed at creating consumers who are better informed about what to look for in a child care setting and what experts consider to be important elements of quality. The assumption is that better-informed consumers will create a demand for higher-quality child care and the market will respond accordingly.

Quality money is spent by states and communities on a variety of different projects, often quite small, and broadly rather than narrowly targeted. The extent to which these efforts affect child care used by low-income families is not clear; they only occasionally target the license-exempt providers who are the focus of much of the concern about quality. Efforts to stimulate supply do not always result in an increased supply but they may work to counter or reduce attrition in the supply of child care, especially among family child care providers.

* * *

The final chapter of the report considers the implications of these and earlier findings.

Chapter Seven: Implications of the Findings

The data collection for the state and community substudy took place at a unique time in federal and state child care subsidy policy. After several years of nearly level federal funding, states had the opportunity to expand subsidies rapidly, both through the funds from the Child Care and Development Fund and by using surplus TANF funds. As a result of this expansion in funding, states were confronted with broader interest in and political pressure related to subsidies. They also had to make a variety of decisions, including: which groups to serve and with what system of priorities; how to streamline and make delivery systems more efficient; how to expand services rapidly despite state and local administrative constraints; and which parts of the system should be improved first. These kinds of issues stood in sharp contrast to the debates of past years, which were focused on how to manage and maintain a system pressured by steady demand, with little or no additional funding to serve most of the families in need of subsidized care.

This chapter summarizes the information from prior chapters and identifies some of the implications of the findings. The chapter discusses the following issues:

- **States served many more eligible families in 1999 than 1997.** In states with a commitment to serve everyone, the pattern of growth showed few signs that demand was leveling off in the spring of 1999.

- **Despite the great increase in the number of children receiving subsidies, the average state among those studied served only 15 to 20 percent of federally-eligible children in April 1999, and no state served more than 25 percent.** In fact, there were waiting lists of families who requested but did not receive subsidies in 12 of the 17 states.

- **Much of the increased growth in subsidies was made possible by the use of TANF funds.** The extent to which child care subsidies would have expanded absent this source is unclear. It is also unclear how the level of child care subsidy services will be sustained if these funds are not available in the future or if there are other demands on these funds.

- **The majority of the study states spent sufficient state dollars to draw down their full allocations of federal CCDF dollars, putting to rest initial fears that many states would not take advantage of all available CCDF funding.** Beyond dedicated child care funds from the CCDF, states made increasing use of optional federal and state funds not earmarked for child care. Median child care expenditures from optional sources, as a percentage of total child care expenditures, more than doubled between 1997 and 1999, going from 16 to 40 percent.

- **Increased federal funding did not appear to provide states with a changed incentive to spend their own funds on child care.** Since the passage of PWRORA, those states that had a history of investing state dollars in child care subsidies continued to do so and those that had no such history did not begin to invest.

- **The study revealed great variation in child care policies and administrative practices, in numbers of families served, and in the patterns of care that are supported.** The study confirmed that each state's child care subsidy policies is unique and interacts with the child care regulatory environment and its other social policies, namely its welfare, local child care and labor markets. Therefore, it was not possible with the information gathered to determine

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how child care subsidy policies interplay with each unique state context to affect who is served, how many are served, and what types of care they choose.

- **In nearly every state, the growth in subsidies put pressure on states' administrative and automated systems to meet the needs of families demanding subsidies.** This appeared to be caused, in part, by the fact that the growth in child care subsidy staff at the state and local levels did not keep pace with the growth in numbers served in many states and communities. The pressure to accommodate quick growth, appeared to influence states' decisions to privatize subsidy administration.

- **States and communities made different decisions about ways to serve families who were receiving TANF cash assistance and those who were not receiving TANF.** Each model of subsidy delivery had disadvantages for at least one group. When child care subsidies were accessed through the TANF office, this arrangement streamlined the process for TANF families but may have made subsidies less attractive for non-TANF families. Accessing subsidies through CCR&R agencies may have been more acceptable to non-TANF families, but required additional application steps for TANF families. When families accessed subsidies through two or more agencies, depending on their TANF status, there were problems for families who were moving from one eligibility status to another.

- **States and communities remained concerned about issues related directly to the supply and quality of care.** One issue was whether or not payment rates for subsidies were high enough to enable families to purchase care of sufficient quality in the current child care market. Another issue was how to improve the quality of care without raising the price for parents. Initiatives to improve quality rarely specifically targeted caregivers in low-income communities or the informal arrangements that many low-income families use.

- **The strategy of distributing quality improvement funds widely in small grants to local communities makes it difficult to assess the impact of increased funding.** Although, increasingly, states like Colorado and North Carolina are attempting to assess the impact of some quality initiatives, because of the great variety of small programs funded, as well as their different goals and strategies, it will be hard to extract useful lessons from them, that would help us understand how best to increase the supply of scarce types of care, how to ensure that efforts to improve the quality of environments and caregivers result are effective, and whether and how we should support informal care providers.

Growth in Use of Child Care Subsidies

Earlier in the report, we described the dramatic growth in the use of subsidies in many of the state and communities in the study. In over half of the states, 50 percent more federally-eligible children received subsidies in 1999 than in 1997. This growth occurred in virtually all of the states and communities. Nevertheless, the evidence suggests that there remains a significant unmet demand for subsidies. In those states that made a commitment, either formal or informal, to serve every eligible family that requested subsidies, the rate of growth in the use of subsidies did not suggest that demand was leveling off. In other states that had no such commitment, waiting lists indicated that more families demanded subsidies than could be served.

Beyond these indicators of unmet demand, it was difficult for key informants in states and communities to estimate demand more precisely or to know how close they had come to meeting it. While it is not clear how many eligible families would apply for subsidies if they were readily accessible, it is clear that, in the states in this study, the vast majority of potentially-eligible families did not receive them. In 12 of the 16 states reporting their child care subsidy utilization, fewer than 20 percent of eligible children received subsidies. In no state did more than 25 percent of eligible children receive subsidized child care.

While they could assess the extent to which they were meeting the needs of eligible families that applied for subsidies, key informants had no way of knowing the gap in numbers between those who applied and those who did not know about subsidies but would apply for them, given the states' specific rules about eligibility, payments levels to providers, and co-payment requirements. Key informants disagreed about how the estimate of the number of children from non-TANF families *eligible* for subsidies related to the potential *demand* for subsidies. Some pointed out that some eligible children were enrolled in other programs, such as Head Start. Others believed that families were aware of subsidies but chose not to apply for them because of the stigma of receiving government assistance or because excessive paperwork made the enterprise too difficult. Others believed very strongly that there were many families who were potentially eligible but were not aware that subsidies were available.

There was a striking difference between key informants' beliefs about the degree to which TANF families were served as opposed to those from non-TANF families. Key informants in most states believed that all TANF families were aware of subsidies, and most, if not all, of the TANF families who needed them had applied and received them. In some states, such as Washington, there was an awareness that many families on TANF had misconceptions about the implications of accepting subsidies. A study in that state showed that a significant percentage of families believed that accepting subsidies when they stopped receiving cash assistance would count toward their lifetime limits for cash assistance. Some key informants also emphasized that while they saw no problems with meeting the need for subsidies among the TANF population, they worried about future years when time limits for cash assistance had taken effect and work requirements had increased.

Even though there were disagreements about the degree to which demand was being met, in most of the states in the study, there were very limited outreach efforts to the non-TANF population, adding support for the idea that there remained a potential demand for subsidy assistance that could not be met with current resources. In states without a commitment to serve all eligible families, informants felt that outreach was unnecessary, because there were already families on the waiting lists. In states with a commitment to serve all eligible families, there was little or no outreach because state staff feared that it would create a demand they could not meet.

Use of TANF Funds to Support Subsidy Growth

The report documents the dramatic growth in funding for child care subsidies over the first three years of the Personal Responsibility and Work Opportunity Reconciliation Act. During this period, the median increase in child care spending among the study states was 78 percent. These major increases in state child care spending came, primarily, from two sources: expanded funding available through the Child Care and Development Fund and from states' TANF Block Grant funds that were not spent on direct cash assistance.

From the outset, all the study states spent at levels designed to meet the maintenance-of-effort and state matching requirements necessary to receive their share of the CCDF's new federal matching money. That they would do so was not a forgone conclusion. States could have continued to receive their lower, pre-CCDF federal child care allocations without meeting any maintenance-of-effort or matching requirements. However, the prospect of additional federal dollars proved a sufficient incentive that states spent their own funds to draw them down.

As the states in the study began to implement PRWORA, many were motivated to maximize the funds available to them through the CCDF. Key informants from many states considered child care essential to the success of their welfare reform efforts. Though no longer required to do so by the federal government, states were committed to providing child care subsidies to TANF families preparing for work and to supporting the child care needs of eligible families who left welfare for work. States expected the numbers of families in both these categories to grow as they worked to meet federally-required goals for the reduction of their TANF caseloads.

As TANF caseloads fell much faster than was anticipated, study states looked to unspent TANF funds as a means to expand their child care subsidy spending and to help meet additional demand from low-income working families—those who had never received TANF, as well as former recipients. In the third year of PRWORA and in CCDF, in over half of the reporting states, TANF funds—both those transferred into the CCDF and those spent directly—accounted for 20 percent or more of the child care spending.

Most states first chose to use TANF funds for child care by transferring them into the CCDF. In PRWORA and CCDF's third year, all but one of the reporting states spent transferred TANF funds. This mechanism gave states the ability to spread available TANF funds over several years. Once states have moved TANF funds into the CCDF, they have two years after the year of transfer in which to spend them. Many states, therefore, have unspent sums of previously transferred TANF funds to spend in the coming years, in addition to future amounts they may transfer. Like transfers during the first three years, future transfers will be limited to 30 percent of states' annual TANF Block Grants.

States also became increasingly willing to spend TANF funds directly on child care. In the third year, over half the reporting states spent TANF funds directly for child care. This was, in part, a response to the final TANF regulations issued that year. Unlike the interim regulations, the final regulations held that use of these funds would not count against working families' lifetime TANF limits. States could also decide to spend TANF funds directly on child care after they had transferred the annual maximum amount allowable into the CCDF.

Although TANF funds have contributed significantly to states' expansion in child care spending, reliance on TANF funds to sustain this growth raises potential problems. Even a mild recession could result in higher TANF caseloads. Singly, or in combination, these events are likely to reduce the surpluses. States would be faced with the choice of replacing federal dollars with state dollars to maintain the current high spending levels, or of cutting subsidies for many low-income families as Massachusetts did during its last major recession.

During this period, nearly two-thirds of the study states tapped a third source of funds to expand child care spending—optional state funding. States with histories of allocating state money beyond amounts required to draw down their federal allocations typically increased their optional child care spending. States without such a history, however, did not start spending extra state dollars. The general expansion in spending supported by CCDF and TANF funds did not fundamentally change study states' inclinations to spend or not to spend optional state funds. In a period of continuing prosperity, states that historically supported subsidies with their own money might be disposed to make up a reduction in federal funds. However, this does not afford us insight into states' likely response to a reduction in federal support, if it is accompanied by an economic downturn that reduces state revenues and creates additional pressure on state support for needy families.

Variation in Subsidy Policy

In the process of analysis, our hope was that we could discern different patterns and configurations of states' policy decisions and could characterize the states in the study in a few, relatively simple clusters. However, this goal proved to be impossible given the extent of the variation in subsidy take-up rates, subsidy usage for different types of care, reimbursement rates, regulatory and other policies, and the relatively small number of states in our sample. Rather, the study highlights the fact that each state's child care subsidy policies are unique and interact with the state's child care regulatory environment, its other social policies, and local child care and labor markets. Therefore, it was not possible with the information gathered to determine how child care subsidy policies interact with other contextual factors to determine who is served, how many are served, and what types of care they receive.

In future reports, using information from the Community Survey of 2,500 low-income families that use out-of-home, non-parental care, we hope to identify the ways in which the receipt or absence of subsidies influence parents' decision-making. We will also combine data from this survey with state and community data to explore the effect of subsidy *policies* on subsidy take-up rates and parents' selection of child care.

Administrative Pressures

Our site visits took place after two years of unprecedented growth in funding for and use of subsidies. In nearly every state where there was significant growth in subsidies, there was also evidence of great pressure on states' administrative and automated systems to meet the needs of families demanding subsidies. The administrative pressure that accompanies expansion in services appeared to be exacerbated by the fact that, in most cases, there was no concurrent expansion of state or local government staffs. Indeed, several states and communities had experienced significant staffing reductions just before the expansion. In many states, child care administrators were in the last stages of processes of making the needed "fixes" to the system to accommodate current and future levels of subsidy use.

In addition to the administrative challenges, child care administrators had many additional demands placed upon them. They were required to be responsive to members of the community as well as to governors' offices and state legislative bodies, both of which have, in the past few years, showed greater interest in subsidy administration and a desire for more influence on related policy decisions. Whether because of these new pressures, administrative reorganization, or individual circumstances, in many of the states in the study, over a data collection period of approximately five months, the lead child care administrator left the agency either just before or just after we conducted our interviews. In the first case, the administrator interviewed was very new to the position; in the second case, there was no-one to verify information collected or supply additional information. This presented some difficulties for the research; more importantly it increased the challenges for states who were in the midst of implementing reforms to their administrative systems.

At the local level, growth in child care subsidy staff did not always keep pace with the growth in numbers served in many communities. There were two solutions used to meet the additional demand. In those states and communities where subsidies were delivered through the TANF agency, there was a tendency to reassign TANF staff who were no longer needed in that role because of TANF caseload declines. In other states, subsidy administration was privatized, in part to allow more freedom to increase staffing to more appropriate levels.

Staffing issues were not the only problems. Many states found that existing systems, adequate for subsidy administration when there were fewer cases to manage, were inadequate to cope with a much larger caseload and expanded federal reporting requirements. This seemed to be especially true in states that had a longer tradition of providing subsidies, and, as a consequence, older computer systems. Many states, in the spring of 1999, were in the midst of implementing new administrative and computer systems to help deal with the expansion in subsidies.

The pressure to accommodate quick growth seemed to be a factor in states' decisions about the privatization of subsidy administration. Growth also influenced states and communities to re-evaluate the balance between local flexibility and state control, particularly in those places where subsidies were administered by a private agency. With the additional freedom that resulted from the consolidation of previous subsidy programs, states and communities made differing decisions about ways to serve families who were receiving TANF cash assistance and those who were not receiving TANF. No one model of subsidy delivery seemed to work equally well for all families; some models made application and eligibility determination more convenient for TANF families, others made application easier for non-TANF families but added complexity for TANF families.

The decision of whether to use government agencies or private organizations to provide subsidy services represents a set of tradeoffs. For example, most of the counties that use government agencies use the TANF agency to determine eligibility for subsidies. Delivering subsidies through a government TANF office can create a tight link between TANF receipt and child care assistance, which can help ensure that families receiving TANF learn about and have ready access to childcare subsidies. It may also result in some administrative economies of scale, since child care subsidies are co-administered with TANF and other public benefit programs. While this approach may be convenient for TANF families, it may present a disincentive to non-TANF families who wish to avoid any perceived stigma attached to going to a welfare office. Moreover, in most instances, families who do not already have a provider, or who wish to learn more about how to choose care, will need to visit another office (usually a local CCR&R) for assistance. It is unclear how many families would fit into this latter category. Key informants at the local level reported that most parents that applied for subsidies had a provider in mind at the time they applied. Indeed, in some states, they reported that it was often the provider who sent the parent to the subsidy agency.

The counties that use non-governmental agencies to provide subsidy represent a policy choice with a different set of tradeoffs. For example, those private agencies usually specialize in child care services and can provide expertise and experience in helping families choose providers. They are able to hire staff more easily than government agencies. Moreover private agencies are less likely to have any stigma attached to them. On the other hand, the private agencies may pose an additional burden to TANF families who have to travel to another location to apply for subsidies and choose a provider. In Union County, New Jersey, the private contractor that does eligibility work has workers co-located at the TANF offices. In Mecklenberg County, North Carolina, the private agency that manages the subsidy system is considering outstationing a worker with a computer terminal at the TANF office to serve TANF families that need subsidies.

In those cases where subsidies were split into two or more agencies, based on TANF status, there were inherent problems for families transitioning from one eligibility status to another. It is widely understood that, in all social services, each additional administrative step increases the likelihood that families will fall between the cracks and lose their services. Those communities where transitioning families were required to fill out additional applications at a different agency, with potentially different rules, seemed also to be the places where families were likely to lose subsidies once they left welfare, even if the states' policy was that they remained eligible and/or were a high priority in the new eligibility category.

Pressures on the Supply of Child Care

Almost universally, key informants reported that the growth in subsidies did not put the expected pressures on the supply of child care, and did not, by itself, cause or exacerbate scarcities in regulated care. For many of the states in the study, the data on the proportions of types of care purchased with child care subsidies supports these perceptions. If there were a general scarcity of regulated care, one might expect that a higher number of families that were using subsidies would turn to unregulated forms, such as care by relatives and license-exempt family child care providers. The data, however, do not reveal such a pattern. For example, in the two year period, the proportion of subsidized relative care went up in approximately one-third of the states, but in the same number of states the proportion dropped. Overall, in most of the states that reported data, there were few shifts in the proportions of the types of care purchased with subsidies during the period of growth.

While key informants almost uniformly reported that the growth in child care subsidies did not have the anticipated effect of squeezing the supply of care, some were still very concerned about supply, particularly in those areas of the country where the level of regulation meant that new regulated child care providers could not enter the market easily. As we noted in Chapter Six, there were also rising concerns in large urban areas that the economic boom and tight labor markets were drawing providers away from child care and into better-paying jobs, as well as creating increasing demand. Eventually, these pressures may draw away many of the relatives who currently meet parents' needs for off-hours care and care for infants. Throughout virtually all 25 communities, there were also concerns about specific types of care - including for infants and toddlers, children with special needs, families working non-traditional hours, and, in some locations, school-age child care. These concerns were rarely based on information gathered about demand and did not always take into account some parents' preferences for relative and in-home care in some circumstances, such as for very young children, and for non-traditional hours.

States and communities remained concerned about issues related directly to the supply and quality of care. One issue raised was whether or not payment rates for subsidies were high enough to enable families to purchase care of sufficient quality in the current child care market. A related issue was how to use the quality set-aside funds in the CCDF to improve the quality of care without raising the price for parents who must purchase care without subsidy assistance. These related issues define the balancing act that states and community must perform as they set subsidy rates and consider ways to improve the quality of care. If, as many key informants reported, the subsidy rates are set too low and cover less than half the available care, then parents who receive subsidies will be constrained in their choice of care to that portion of the market, which is probably not the highest-quality care. If, on the other hand, the subsidy rates are set too high, the market as a whole will react by raising prices, putting quality care out of reach for families who may or may not be income-eligible for subsidies, but who are paying the whole cost of care.

The use of the quality set-aside funds poses the same dilemma. Encouraging staff to acquire additional skills and professional training, and offering financial incentives for them to do so works well in a system such as Head Start or a state-funded preschool program, where the costs of the program are fully covered by public funding. In the child care system, where only a small portion of care is publicly paid for, the result may be increased costs for higher-quality care, unless none of the expense of raising quality is passed onto parents, but rather paid for with these funds.

Efforts to Increase Quality

Many key informants in areas where there were tight labor markets and relatively high levels of regulation felt that efforts to increase the supply of care were fighting against a tide of larger market forces. Their efforts sometimes meant that they were able to slow or stave off the shrinkage in supply rather than increase the quantity of regulated care. While there were some success stories, there were no clearly successful strategies that would lead states and communities to concentrate their efforts rather than trying many different approaches.

Many states' uses of quality set-aside funds reflected no clear strategy. With few exceptions, quality monies funded many small, local projects, none of them large enough, by themselves, to make a noticeable difference in the amount and quality of child care available in the community, although they may make a significant difference to individual providers. While this funding strategy reflects a respect for the ability of communities to define their own needs, it makes it almost impossible to evaluate whether the considerable increase in the amount of funds devoted to quality improvement has had any measurable impact and on whom.

Which brings us to our final point about quality expenditures. Quality initiatives only occasionally targeted caregivers in low-income communities or the informal care arrangements that many low-income families use. This is in accordance with the intent of the quality set-aside, which is directed at the improvement of child care generally. However, if we believe, as research suggests, that the quality of the early childhood experience is most likely to affect children living in or close to poverty, the result of this dispersion of effort may be that some of those most likely to benefit from improved quality may not experience it.

Appendix Tables

Appendix Table 2.1 : States' total child care spending from all sources by federal fiscal year and percent change 1997-1999

	FFY 1997	FFY 1998		% Change 1997-1999
ALABAMA	$47,467,868	$77,510,885	$83,726,732	76%
CALIFORNIA	$883,310,610	$1,360,596,407	$2,070,352,778	134%
ILLINOIS	$336,514,389	$367,430,229	$548,359,761	63%
INDIANA	$57,188,771	$138,369,148	$156,332,530	173%
LOUISIANA	$28,824,581	$85,186,438	$118,519,737	311%
MASSACHUSETTS	$256,269,084	$260,395,802	$300,082,996	17%
MICHIGAN	$264,942,691	$444,727,204	$515,743,973	95%
MINNESOTA	$92,757,837	$135,800,507	$213,663,856	130%
NEW JERSEY	$145,099,248	$150,801,672	$211,614,625	46%
NEW MEXICO	$22,444,169	$46,098,672	$46,618,194	108%
NEW YORK				
NORTH CAROLINA	$194,946,558	$253,936,519	$285,590,773	47%
OHIO	$197,596,251	$210,957,443	$244,548,743	24%
TENNESSEE	$117,932,863	$148,463,668	$172,832,153	47%
TEXAS	$210,490,900	$276,615,561	$358,211,032	70%
VIRGINIA	$75,666,187	$94,432,589	$136,149,784	80%
WASHINGTON	$111,615,008	$162,439,141	$219,962,134	97%

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

Appendix Table 2.3: FFY97

State	Total FFY97 Spending	Cost Per Hour (1)	Cost Index (1)	Adjusted FFY97 Spending	Potentially Financially Eligible Federal Rules (2)	Federal Rules Adj. Total FFY97 Spending Per Capita
ALABAMA	$47,467,868	$6.92	0.896	$52,977,531	232,113	$228.24
CALIFORNIA	$883,310,610	$9.99	1.294	$682,620,255	1,732,009	$394.12
ILLINOIS	$336,514,389	$8.59	1.113	$302,348,957	675,876	$447.34
INDIANA	$57,188,771	$8.59	1.113	$51,382,544	298,991	$171.85
LOUISIANA	$28,824,581	$6.12	0.793	$36,348,778	219,523	$165.58
MASSACHUSETTS	$256,269,084	$8.59	1.113	$230,250,749	301,560	$763.53
MICHIGAN	$264,942,691	$8.59	1.113	$238,043,748	544,854	$436.89
MINNESOTA	$92,757,837	$7.84	1.016	$91,297,084	297,578	$306.80
NEW JERSEY	$145,099,248	$8.46	1.096	$132,389,825	350,453	$377.77
NEW MEXICO	$22,444,169	$7.20	0.933	$24,055,915	127,184	$189.14
NEW YORK		$8.46	1.096	$0	879,719	$0.00
NORTH CAROLINA	$194,946,558	$6.89	0.892	$218,549,953	411,074	$531.66
OHIO	$197,596,251	$8.59	1.113	$177,534,817	579,749	$306.23
TENNESSEE	$117,932,863	$6.92	0.896	$131,621,499	345,716	$380.72
TEXAS	$210,490,900	$6.12	0.793	$265,436,192	1,159,061	$229.01
VIRGINIA	$75,666,187	$6.89	0.892	$84,827,564	348,077	$243.70
WASHINGTON	$111,615,008	$9.99	1.294	$86,255,802	310,329	$277.95

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

(1) Expenditures were adjusted using a child care cost index based on the relative average hourly wage rate for a child care worker. The Child Care Cost Index is defined as: CCCIi = Wi/Wn, where Wi = average hourly wage rate for child careworkers in Region i, and Wn = national average hourly wage rate for child care workers. Adjusted child care expenditures in state i = actual child care expenditures in State i divided by CCCIi, when State i is located in Region i. Average hourly wage rates for child care workers were obtained from r based on the 1997 Census Bureau's National Compensation Survey. Wages are estimated for 9 Census regions, nationally.

(2) The estimated number of potentially-eligible children under federal eligibility criteria provides a common benchmark across the states that is unaffected by state policy. These are children in families earning 85 percent or less of the State Median Income and with parents working or in other activities which confer potential eligibility. The estimated number of federally-eligible children is the result of a simulation model estimate conducted by the Urban Institute using data on income, employment, and disability status from the combined March 1995, March 1996, and March 1997 Current Population Surveys, which cover calendar years 1996-1998. Of course, in no state do all potentially federally-eligible children receive subsidies. See discussion of "subsidy penetration rate for federally-eligible children" in Chapters Three and Seven.

Appendix Table 2.3: FFY98

State	Total FFY98 Spending	Cost Per Hour (1)	Cost Index (1)	Adjusted FFY98 Spending	Potentially Financially Eligible Federal Rules (2)	Federal Rules Adj. Total FFY98 Spending Per Capita
ALABAMA	$77,510,885	$6.92	0.896	$86,507,684	232,113	$372.70
CALIFORNIA	$1,360,596,407	$9.99	1.294	$1,051,465,539	1,732,009	$607.08
ILLINOIS	$367,430,229	$8.59	1.113	$330,125,992	675,876	$488.44
INDIANA	$138,369,148	$8.59	1.113	$124,320,888	298,991	$415.80
LOUISIANA	$85,186,438	$6.12	0.793	$107,422,999	219,523	$489.35
MASSACHUSETTS	$260,395,802	$8.59	1.113	$233,958,492	301,560	$775.83
MICHIGAN	$444,727,204	$8.59	1.113	$399,575,206	544,854	$733.36
MINNESOTA	$135,800,507	$7.84	1.016	$133,661,916	297,578	$449.17
NEW JERSEY	$150,801,673	$8.46	1.096	$137,592,767	350,453	$392.61
NEW MEXICO	$46,098,672	$7.20	0.933	$49,409,080	127,184	$388.49
NEW YORK		$8.46	1.096	$0	879,719	$0.00
NORTH CAROLINA	$253,936,519	$6.89	0.892	$284,682,196	411,074	$692.53
OHIO	$210,957,443	$8.59	1.113	$189,539,482	579,749	$326.93
TENNESSEE	$148,463,668	$6.92	0.896	$165,696,058	345,716	$479.28
TEXAS	$276,615,561	$6.12	0.793	$348,821,641	1,159,061	$300.95
VIRGINIA	$94,432,589	$6.89	0.892	$105,866,131	348,077	$304.15
WASHINGTON	$162,439,141	$9.99	1.294	$125,532,566	310,329	$404.51

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

(1) Expenditures were adjusted using a child care cost index based on the relative average hourly wage rate for a child care worker. The Child Care Cost Index is defined as: CCCIi = Wi/Wn, where Wi = average hourly wage rate for child careworkers in Region i, and Wn = national average hourly wage rate for child care workers. Adjusted child care expenditures in state i = actual child care expenditures in State i divided by CCCIi, when State i is located in Region i. Average hourly wage rates for child care workers were obtained from r based on the 1997 Census Bureau's National Compensation Survey. Wages are estimated for 9 Census regions, nationally.

(2) The estimated number of potentially-eligible children under federal eligibility criteria provides a common benchmark across the states that is unaffected by state policy. These are children in families earning 85 percent or less of the State Median Income and with parents working or in other activities which confer potential eligibility. The estimated number of federally-eligible children is the result of a simulation model estimate conducted by the Urban Institute using data on income, employment, and disability status from the combined March 1995, March 1996, and March 1997 Current Population Surveys, which cover calendar years 1996-1998. Of course, in no state do all potentially federally-eligible children receive subsidies. See discussion of "subsidy penetration rate for federally-eligible children" in Chapters Three and Seven.

Appendix Table 2.3: FFY99

State	Total FFY99 Spending	Cost Per Hour (1)	Cost Index (1)	Adjusted FFY99 Spending	Potentially Financially Eligible Federal Rules (2)	Federal Rules Adj. Total FFY99 Spending Per Capita
ALABAMA	$83,726,732	$6.92	0.896	$93,445,013	232,113	$402.58
CALIFORNIA	$2,070,352,778	$9.99	1.294	$1,599,963,507	1,732,009	$923.76
ILLINOIS	$548,359,761	$8.59	1.113	$492,686,218	675,876	$728.96
INDIANA	$156,332,530	$8.59	1.113	$140,460,494	298,991	$469.78
LOUISIANA	$118,519,737	$6.12	0.793	$149,457,424	219,523	$680.83
MASSACHUSETTS	$300,082,996	$8.59	1.113	$269,616,349	301,560	$894.07
MICHIGAN	$515,743,973	$8.59	1.113	$463,381,827	544,854	$850.47
MINNESOTA	$213,663,856	$7.84	1.016	$210,299,071	297,578	$706.70
NEW JERSEY	$211,614,625	$8.46	1.096	$193,079,037	350,453	$550.94
NEW MEXICO	$46,618,194	$7.20	0.933	$49,965,910	127,184	$392.86
NEW YORK		$8.46	1.096	$0	879,719	$0.00
NORTH CAROLINA	$285,590,773	$6.89	0.892	$320,169,028	411,074	$778.86
OHIO	$244,548,743	$8.59	1.113	$219,720,344	579,749	$378.99
TENNESSEE	$172,832,153	$6.92	0.896	$192,893,028	345,716	$557.95
TEXAS	$358,211,032	$6.12	0.793	$451,716,308	1,159,061	$389.73
VIRGINIA	$136,149,784	$6.89	0.892	$152,634,287	348,077	$438.51
WASHINGTON	$219,962,134	$9.99	1.294	$169,986,193	310,329	$547.76

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

(1) Expenditures were adjusted using a child care cost index based on the relative average hourly wage rate for a child care worker. The Child Care Cost Index is defined as: $CCCI_i = W_i/W_n$, where W_i = average hourly wage rate for child careworkers in Region i, and W_n = national average hourly wage rate for child care workers. Adjusted child care expenditures in state i = actual child care expenditures in State i divided by $CCCI_i$, when State i is located in Region i. Average hourly wage rates for child care workers were obtained from r based on the 1997 Census Bureau's National Compensation Survey. Wages are estimated for 9 Census regions, nationally.

(2) The estimated number of potentially-eligible children under federal eligibility criteria provides a common benchmark across the states that is unaffected by state policy. These are children in families earning 85 percent or less of the State Median Income and with parents working or in other activities which confer potential eligibility. The estimated number of federally-eligible children is the result of a simulation model estimate conducted by the Urban Institute using data on income, employment, and disability status from the combined March 1995, March 1996, and March 1997 Current Population Surveys, which cover calendar years 1996-1998. Of course, in no state do all potentially federally-eligible children receive subsidies. See discussion of "subsidy penetration rate for federally-eligible children" in Chapters Three and Seven.

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Appendix Table 2.7a: **Amounts and percentages of total annual child care spending from federal and state dedicated sources, by federal fiscal year**

State	Dedicated Federal Amt.	Dedicated Federal %	Dedicated State Amt.	Dedicated State %	Dedicated Federal + State Amt.	Dedicated Federal + State %
Alabama 1997	$35,663,704	75.13%	$9,500,122	20.01%	$45,163,826	95.15%
Alabama 1998	$53,576,764	69.12%	$14,437,782	18.63%	$68,014,546	87.75%
Alabama 1999	$51,167,414	61.11%	$13,306,936	15.89%	$64,474,350	77.01%
California 1997	$199,145,305	22.55%	$189,110,071	21.41%	$388,255,376	43.95%
California 1998	$373,955,826	27.48%	$192,720,736	14.16%	$566,676,562	41.65%
California 1999	$417,495,626	20.17%	$203,674,425	9.84%	$621,170,051	30.00%
Illinois 1997	$128,246,253	38.11%	$92,635,041	27.53%	$220,881,294	65.64%
Illinois 1998	$133,402,070	36.31%	$95,625,441	26.03%	$229,027,511	62.33%
Illinois 1999	$137,643,730	25.10%	$100,124,017	18.26%	$237,767,747	43.36%
Indiana 1997	$32,860,983	57.46%	$24,327,688	42.54%	$57,188,671	100.00%
Indiana 1998	$69,712,258	50.38%	$26,617,888	19.24%	$96,330,146	69.62%
Indiana 1999	$56,541,111	36.17%	$28,074,264	17.96%	$84,615,375	54.13%
Louisiana 1997	$23,155,846	80.33%	$5,668,735	19.67%	$28,824,581	100.00%
Louisiana 1998	$73,777,036	86.61%	$11,317,603	13.29%	$85,094,639	99.89%
Louisiana 1999	$69,798,817	58.89%	$10,434,045	8.80%	$80,232,862	67.70%
Massachusetts 1997	$71,860,993	28.04%	$60,349,957	23.55%	$132,210,950	51.59%
Massachusetts 1998	$75,782,234	29.10%	$62,620,313	24.05%	$138,402,547	53.15%
Massachusetts 1999	$75,554,006	25.18%	$64,007,915	21.33%	$139,561,921	46.51%
Michigan 1997	$86,425,164	32.62%	$44,267,627	16.71%	$130,692,791	49.33%
Michigan 1998	$95,209,655	21.41%	$51,560,882	11.59%	$146,770,537	33.00%
Michigan 1999	$59,948,929	11.62%	$38,590,863	7.48%	$98,539,792	19.11%
Minnesota 1997	$46,016,582	49.61%	$30,529,359	32.91%	$76,545,941	82.52%
Minnesota 1998	$60,315,177	44.41%	$33,320,198	24.54%	$93,635,375	68.95%
Minnesota 1999	$53,962,697	25.26%	$35,178,472	16.46%	$89,141,169	41.72%
New Jersey 1997	$68,318,248	47.08%	$51,120,679	35.23%	$119,438,927	82.32%
New Jersey 1998	$56,011,934	37.14%	$40,828,261	27.07%	$96,840,195	64.22%
New Jersey 1999	$72,517,564	34.27%	$53,778,505	25.41%	$126,296,069	59.68%
New Mexico 1997	$14,097,126	62.81%	$4,932,351	21.98%	$19,029,477	84.79%
New Mexico 1998	$23,813,592	51.66%	$5,181,600	11.24%	$28,995,192	62.90%
New Mexico 1999	$24,363,965	52.26%	$5,356,083	11.49%	$29,720,048	63.75%
New York 1997						
New York 1998						
New York 1999						
North Carolina 1997	$96,844,100	49.68%	$48,313,314	24.78%	$145,157,414	74.46%
North Carolina 1998	$134,164,680	52.83%	$51,077,172	20.11%	$185,241,852	72.95%
North Carolina 1999	$113,086,808	39.60%	$52,881,239	18.52%	$165,968,047	58.11%
Ohio 1997	$126,523,795	64.03%	$64,774,075	32.78%	$191,297,870	96.81%
Ohio 1998	$128,797,090	61.05%	$69,971,063	33.17%	$198,768,153	94.22%
Ohio 1999	$135,188,949	55.28%	$71,962,896	29.43%	$207,151,845	84.71%
Tennessee 1997	$69,401,713	58.85%	$25,798,899	21.88%	$95,200,612	80.72%
Tennessee 1998	$90,680,141	61.08%	$28,181,398	18.98%	$118,107,017	80.06%
Tennessee 1999	$73,965,098	42.80%	$29,353,215	16.96%	$103,318,313	59.78%
Texas 1997	$131,120,077	62.29%	$62,491,750	29.69%	$193,611,827	91.98%
Texas 1998	$201,034,698	72.68%	$61,440,578	22.21%	$262,475,276	94.89%
Texas 1999	$272,489,568	76.06%	$71,008,219	19.82%	$343,497,787	95.88%
Virginia 1997	$49,239,336	65.07%	$26,426,851	34.93%	$75,666,187	100.00%
Virginia 1998	$56,516,374	59.85%	$37,916,215	40.15%	$94,432,589	100.00%
Virginia 1999	$61,094,323	44.87%	$43,924,294	32.26%	$105,018,617	77.13%
Washington 1997	$56,942,322	51.02%	$52,462,832	47.00%	$109,405,154	98.02%
Washington 1998	$75,313,136	46.36%	$54,634,743	33.63%	$129,947,879	80.00%
Washington 1999	$77,335,517	35.16%	$56,276,060	25.58%	$133,611,577	60.74%

See Exhibit 2-4 for descriptions of dedicated federal and state funding sources

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

Appendix Table 2.7b: Amounts and percentages of total annual child care spending from federal and state optional sources, by federal fiscal year

State	Optional Federal Amt.	Optional Federal %	Optional State Amt.	Optional State %	Optional Federal + State Amt.	Optional Federal + State %
Alabama 1997	$2,222,766	4.68%	$81,276	0.17%	$2,304,042	4.85%
Alabama 1998	$7,699,187	9.93%	$1,797,152	2.32%	$9,496,339	12.25%
Alabama 1999	$18,047,155	21.55%	$1,205,227	1.44%	$19,252,382	22.99%
California 1997	$0	0.00%	$495,055,234	56.05%	$495,055,234	56.05%
California 1998	$46,586,808	3.42%	$747,333,037	54.93%	$793,919,845	58.35%
California 1999	$530,061,751	25.60%	$919,120,976	44.39%	$1,449,182,727	70.00%
Illinois 1997	$22,931,675	6.81%	$92,701,420	27.55%	$115,633,095	34.36%
Illinois 1998	$32,967,700	8.97%	$105,435,018	28.70%	$138,402,718	37.67%
Illinois 1999	$185,111,015	33.76%	$125,480,999	22.88%	$310,592,014	56.64%
Indiana 1997	$0	0.00%	$100	0.00%	$100	0.00%
Indiana 1998	$42,039,000	30.38%	$2	0.00%	$42,039,002	30.38%
Indiana 1999	$71,717,155	45.87%	$0	0.00%	$71,717,155	45.87%
Louisiana 1997	$0	0.00%	$0	0.00%	$0	0.00%
Louisiana 1998	$64,284	0.08%	$27,515	0.03%	$91,799	0.11%
Louisiana 1999	$38,286,855	32.30%	$20	0.00%	$38,286,875	32.30%
Massachusetts 1997	$121,757,027	47.51%	$2,301,107	0.90%	$124,058,134	48.41%
Massachusetts 1998	$87,345,359	33.54%	$34,647,896	13.31%	$121,993,255	46.85%
Massachusetts 1999	$150,959,164	50.31%	$9,561,911	3.19%	$160,521,075	53.49%
Michigan 1997	$107,634,585	40.63%	$26,615,315	10.05%	$134,249,900	50.67%
Michigan 1998	$244,952,838	55.08%	$53,003,829	11.92%	$297,956,667	67.00%
Michigan 1999	$317,211,646	61.51%	$99,992,535	19.39%	$417,204,181	80.89%
Minnesota 1997	$0	0.00%	$16,211,896	17.48%	$16,211,896	17.48%
Minnesota 1998	$0	0.00%	$42,165,132	31.05%	$42,165,132	31.05%
Minnesota 1999	$57,491,000	26.91%	$67,031,687	31.37%	$124,522,687	58.28%
New Jersey 1997	$12,300,000	8.48%	$13,360,321	9.21%	$25,660,321	17.68%
New Jersey 1998	$53,961,477	35.78%	$0	0.00%	$53,961,477	35.78%
New Jersey 1999	$80,318,556	37.96%	$5,000,000	2.36%	$85,318,556	40.32%
New Mexico 1997	$0	0.00%	$3,414,692	15.21%	$3,414,692	15.21%
New Mexico 1998	$13,304,750	28.86%	$3,798,730	8.24%	$17,103,480	37.10%
New Mexico 1999	$13,688,365	29.36%	$3,209,781	6.89%	$16,898,146	36.25%
New York 1997						
New York 1998						
New York 1999						
North Carolina 1997	$15,061,669	7.73%	$34,727,475	17.81%	$49,789,144	25.54%
North Carolina 1998	$22,259,615	8.77%	$46,435,052	18.29%	$68,694,667	27.05%
North Carolina 1999	$83,284,758	29.16%	$36,337,968	12.72%	$119,622,726	41.89%
Ohio 1997	$1,548,594	0.78%	$4,749,787	2.40%	$6,298,381	3.19%
Ohio 1998	$1,429,031	0.68%	$10,760,259	5.10%	$12,189,290	5.78%
Ohio 1999	$30,243,477	12.37%	$7,153,421	2.93%	$37,396,898	15.29%
Tennessee 1997	$22,732,251	19.28%	$0	0.00%	$22,732,251	19.28%
Tennessee 1998	$29,602,129	19.94%	$0	0.00%	$29,602,129	19.94%
Tennessee 1999	$69,513,840	40.22%	$0	0.00%	$69,513,840	40.22%
Texas 1997	$16,879,073	8.02%	$0	0.00%	$16,879,073	8.02%
Texas 1998	$14,140,285	5.11%	$0	0.00%	$14,140,285	5.11%
Texas 1999	$14,713,245	4.11%	$0	0.00%	$14,713,245	4.12%
Virginia 1997	$0	0.00%	$0	0.00%	$0	0.00%
Virginia 1998	$0	0.00%	$0	0.00%	$0	0.00%
Virginia 1999	$31,131,163	22.87%	$4	0.00%	$31,131,167	22.87%
Washington 1997	$528,211	0.47%	$1,681,643	1.51%	$2,209,854	1.98%
Washington 1998	$32,309,089	19.89%	$182,173	0.11%	$32,491,262	20.00%
Washington 1999	$86,350,557	39.26%	$0	0.00%	$86,350,557	39.26%

See Exhibit 2-5 for descriptions of optional federal and state funding sources

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

Appendix Table 2.8: Amounts and percentages of total annual spending from optional federal sources, by federal fiscal year

			Optional Federal Funding Sources								
State	Optional Federal Amt.	Optional Federal % of Total Annual Spending	TANF transfer Amt.	TANF transfer % (1)	TANF direct Amt. (2)	TANF direct %	Title XX SSBG Amt.	Title XX SSBG %	Title IVE Amt.	Title IVE %	Other Federal Amt.
Alabama 1997	$2,222,766	4.68%	$0	0.00%	$0	0.00%	$2,222,766	4.68%	$0	0.00%	$0
Alabama 1998	$7,699,187	9.93%	$0	0.00%	$7,199,187	9.29%	$500,000	0.65%	$0	0.00%	$0
Alabama 1999	$18,047,155	21.55%	$10,000,000	11.94%	$7,547,145	9.01%	$500,010	0.60%	$0	0.00%	$0
California 1997	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
California 1998	$46,586,808	3.42%	$0	0.00%	$46,586,808	3.42%	$0	0.00%	$0	0.00%	$0
California 1999	$530,061,751	25.60%	$175,729,406	8.49%	$171,332,345	8.28%	$183,000,000	8.84%	$0	0.00%	$0
Illinois 1997	$22,931,675	6.81%	$0	0.00%	$0	0.00%	$15,864,175	4.71%	$7,067,500	2.10%	$0
Illinois 1998	$32,967,700	8.97%	$0	0.00%	$0	0.00%	$25,600,000	6.97%	$7,367,700	2.01%	$0
Illinois 1999	$185,111,015	33.76%	$117,011,392	21.34%	$35,208,023	6.42%	$25,600,000	4.67%	$7,291,600	1.33%	$0
Indiana 1997	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Indiana 1998	$42,039,000	30.38%	$42,039,000	30.38%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Indiana 1999	$71,717,155	45.87%	$56,039,000	35.85%	$15,678,155	10.03%	$0	0.00%	$0	0.00%	$0
Louisiana 1997	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Louisiana 1998	$64,284	0.08%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$64,284
Louisiana 1999	$38,286,855	32.30%	$38,286,855	32.30%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Massachusetts 1997	$121,757,027	47.51%	$108,164,411	42.21%	$0	0.00%	$13,592,616	5.30%	$0	0.00%	$0
Massachusetts 1998	$87,345,359	33.54%	$79,253,383	30.44%	$7,110,224	2.73%	$981,752	0.38%	$0	0.00%	$0
Massachusetts 1999	$150,959,164	50.31%	$104,495,063	34.82%	$45,220,293	15.07%	$310,993	0.10%	$932,815	0.31%	$0
Michigan 1997	$107,634,585	40.63%	$25,959,286	9.80%	$11,537,068	4.35%	$70,138,231	26.47%	$0	0.00%	$0
Michigan 1998	$244,952,838	55.08%	$149,464,937	33.61%	$81,753,323	18.38%	$11,411,685	2.57%	$2,322,893	0.52%	$0
Michigan 1999	$317,211,646	61.51%	$96,052,255	18.62%	$211,176,065	40.95%	$7,011,394	1.36%	$2,971,932	0.58%	$0
Minnesota 1997	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Minnesota 1998	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
Minnesota 1999	$57,491,000	26.91%	$57,491,000	26.91%	$0	0.00%	$0	0.00%	$0	0.00%	$0
New Jersey 1997	$12,300,000	8.48%	$0	0.00%	$0	0.00%	$12,300,000	8.48%	$0	0.00%	$0
New Jersey 1998	$53,961,477	35.78%	$16,349,984	10.84%	$15,055,493	9.98%	$22,556,000	14.96%	$0	0.00%	$0
New Jersey 1999	$80,318,556	37.96%	$54,774,000	25.88%	$21,544,556	10.18%	$4,000,000	1.89%	$0	0.00%	$0
New Mexico 1997	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0
New Mexico 1998	$13,304,750	28.86%	$13,304,750	28.86%	$0	0.00%	$0	0.00%	$0	0.00%	$0
New Mexico 1999	$13,688,365	29.36%	$13,688,365	29.36%	$0	0.00%	$0	0.00%	$0	0.00%	$0
New York 1997											$0
New York 1998											$0
New York 1999											$0
North Carolina 1997	$15,061,669	7.73%	$0	0.00%	$0	0.00%	$15,061,669	7.73%	$0	0.000%	$0
North Carolina 1998	$22,259,615	8.77%	$11,699,518	4.61%	$0	0.00%	$9,447,051	3.72%	$1,113,046	0.440%	$0
North Carolina 1999	$83,284,758	29.16%	$80,753,855	28.28%	$1,089,066	0.38%	$804,789	0.28%	$637,048	0.220%	$0
Ohio 1997	$1,548,594	0.78%	$0	0.00%	$0	0.00%	$1,548,594	0.78%	$0	0.000%	$0
Ohio 1998	$1,429,031	0.68%	$0	0.00%	$0	0.00%	$1,429,031	0.74%	$0	0.000%	$0
Ohio 1999	$30,243,477	12.47%	$0	0.00%	$29,416,442	12.03%	$827,035	0.34%	$0	0.000%	$0
Tennessee 1997	$22,732,251	19.28%	$12,673,948	10.75%	$0	0.00%	$10,058,303	8.53%	$0	0.000%	$0
Tennessee 1998	$29,602,129	19.94%	$18,557,015	12.50%	$0	0.00%	$11,045,114	7.44%	$0	0.000%	$0
Tennessee 1999	$69,513,840	40.22%	$51,811,123	29.98%	$4,674,342	2.70%	$13,028,375	7.54%	$0	0.000%	$0
Texas 1997	$16,879,073	8.02%	$0	0.00%	$0	0.00%	$16,758,179	7.96%	$0	0.000%	$120,894
Texas 1998	$14,140,285	5.11%	$12,183,631	4.40%	$0	0.00%	$1,896,936	0.69%	$0	0.000%	$59,718
Texas 1999	$14,713,245	4.11%	$14,404,149	4.02%	$0	0.00%	$252,037	0.07%	$0	0.000%	$57,059
Virginia 1997	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.000%	$0
Virginia 1998	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.000%	$0
Virginia 1999	$31,131,163	22.87%	$31,131,163	22.87%	$0	0.00%	$0	0.00%	$0	0.000%	$0
Washington 1997	$528,211	0.47%	$0	0.00%	$0	0.00%	$528,211	0.47%	$0	0.000%	$0
Washington 1998	$32,309,089	19.89%	$28,973,879	17.84%	$0	0.00%	$3,335,210	2.05%	$0	0.000%	$0
Washington 1999	$86,350,557	39.26%	$82,850,557	37.67%	$0	0.00%	$3,500,000	1.59%	$0	0.000%	$0

See Exhibit 2.5 for descriptions of optional federal funding sources.

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

(1) These are amounts spent each year from transferred TANF funds; they are not the amounts transferred. States have one year after transfer to obligate transferred TANF funds, and another yea
them.

(2) For Indiana, Massachussetts, Ohio, and Washington, 1999 amounts differ from those posted on the website of the Administration for Children and Families of the U.S. Department of Health anc
Services (www.acf.dhhs.gov/programs/ofs/data) as of May 5, 2000. The states directed us to use these more recent figures.

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Appendix Table 2.9: Amounts and Percentages of total annual spending from optional state sources, by federal fiscal year

State	Total Optional State Amt.	Optional State %	Optional State Funding Sources Add'l TANF MOE/TANF Child Care Amt. (1)	Add'l TANF MOE/ TANFChild Care MOE %	Add'l TANF MOE/Separate State Prog. Child Care Amt. (1)	Add'l TANF MOE/ Separate State Prog. Child Care %	Other General Revenue Amt.	Other General Revenue %	Child Protective Services Amt.	Child Protective Services %
Alabama 1997	$81,276	0.17%	$0	0.00%	$0	0.00%	$81,276	0.17%	$0	0.00%
Alabama 1998	$1,797,152	2.32%	$0	0.00%	$0	0.00%	$1,797,152	2.32%		0.00%
Alabama 1999	$1,205,227	1.44%	$0	0.00%	$0	0.00%	$1,205,227	1.44%		0.00%
California 1997	$495,055,234	56.05%	$0	0.00%	$1,446,934	0.16%	$493,608,300	55.89%	$0	0.00%
California 1998	$747,333,037	54.93%	$31,729,054	2.33%	$159,553,594	11.73%	$556,050,389	40.87%	$0	0.00%
California 1999	$919,120,976	44.39%	$497,932	0.02%	$154,156,341	7.45%	$764,466,703	36.92%	$0	0.00%
Illinois 1997	$92,701,420	27.55%	$25,000,000	7.43%	$0	0.00%	$15,356,820	4.57%	$52,344,600	15.55%
Illinois 1998	$105,435,018	28.70%	$63,731,439	17.35%	$0	0.00%	$8,049,379	2.19%	$33,654,200	9.16%
Illinois 1999	$125,480,999	22.88%	$81,779,334	14.91%	$0	0.00%	$8,464,665	1.54%	$35,237,000	6.43%
Indiana 1997	$100	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Indiana 1998	$2	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Indiana 1999	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Louisiana 1997	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Louisiana 1998	$27,515	0.03%	$0	0.00%	$0	0.00%	$27,515	0.03%	$0	0.00%
Louisiana 1999	$20	0.00%	$0	0.00%	$0	0.00%	$20	0.00%	$0	0.00%
Massachusetts 1997	$2,301,107	0.90%	$0	0.00%	$0	0.00%	$2,301,107	0.90%	$0	0.00%
Massachusetts 1998	$34,647,896	13.31%	$1,679,201	0.64%	$0	0.00%	$29,270,800	11.24%	$3,697,895	1.42%
Massachusetts 1999	$9,561,911	3.19%	$2,715,232	0.90%	$0	0.00%	$6,846,679	2.28%	$0	0.00%
Michigan 1997	$26,615,315	10.05%	$26,615,315	10.05%	$0	0.00%	$0		$0	0.00%
Michigan 1998	$53,003,829	11.92%	$50,991,399	11.47%	$0	0.00%	$2,012,430	0.45%	$0	0.00%
Michigan 1999	$99,992,535	19.39%	$97,327,267	18.87%	$0	0.00%	$2,665,268	0.52%	$0	0.00%
Minnesota 1997	$16,211,896	17.48%	$0	0.00%	$0	0.00%	$16,211,896	17.48%	$0	0.00%
Minnesota 1998	$42,165,132	31.05%	$0	0.00%	$0	0.00%	$42,165,132	31.05%	$0	0.00%
Minnesota 1999	$67,031,687	31.37%	$30,691,034	14.36%	$0	0.00%	$36,340,653	17.01%	$0	0.00%
New Jersey 1997	$13,360,321	9.21%	$0	0.00%	$0	0.00%	$13,360,321	9.21%	$0	0.00%
New Jersey 1998	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
New Jersey 1999	$5,000,000	2.36%	$0	0.00%	$0	0.00%	$5,000,000	2.36%	$0	0.00%
New Mexico 1997	$3,414,692	15.21%	$0	0.00%	$0	0.00%	$2,740,563	12.21%	$674,129	3.00%
New Mexico 1998	$3,798,730	8.24%	$0	0.00%	$0	0.00%	$2,859,934	6.20%	$938,796	2.04%
New Mexico 1999	$3,209,781	6.89%	$0	0.00%	$0	0.00%	$2,006,317	4.30%	$1,203,464	2.58%
New York 1997										
New York 1998										
New York 1999										
North Carolina 1997	$34,727,475	17.81%	$0	0.00%	$0	0.00%	$34,727,475	17.81%	$0	0.00%
North Carolina 1998	$46,435,052	18.29%	$2,562,901	1.01%	$0	0.00%	$43,872,151	17.28%	$0	0.00%
North Carolina 1999	$36,337,968	12.72%	$3,012,840	1.05%	$0	0.00%	$33,325,128	11.67%	$0	0.00%
Ohio 1997	$4,749,787	2.40%	$0	0.00%	$0	0.00%	$0	0.00%	$4,749,787	2.40%
Ohio 1998	$10,760,259	5.10%	$6,446,668	3.06%	$0	0.00%	$0	0.00%	$4,313,591	2.04%
Ohio 1999	$7,153,421	2.93%	$4,031,611	1.65%	$0	0.00%	$0	0.00%	$3,121,810	1.28%
Tennessee 1997	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Tennessee 1998	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Tennessee 1999	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Texas 1997	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Texas 1998	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Texas 1999	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Virginia 1997	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Virginia 1998	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%
Virginia 1999	$4	0.00%	$0	0.00%	$0	0.00%	$4	0.00%	$0	0.00%
Washington 1997	$1,681,643	1.51%	$0	0.00%	$0	0.00%	$1,681,643	1.51%	$0	0.00%
Washington 1998	$182,173	0.11%	$0	0.00%	$0	0.00%	$182,173	0.11%	$0	0.00%
Washington 1999	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%	$0	0.00%

See Exhibit 2-5 for descriptions of optional state funding sources.

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

(1) Additional TANF Maintenance of Effort amounts are state expenditures on child care for TANF-eligible families in addition to CCDF-required spending--either under the TANF Program or in Separate State Programs.

Appendix Table 2.10: Quality spending by federal fiscal year and percentage growth in quality spending, Federal Fiscal Years 1997 - 1999

State	FFY 1997 Quality Spending	FFY 1998 Quality Spending	FFY 1999 Quality Spending	% Growth FFYs 1997-1999
ALABAMA	$3,029,450	$3,295,560	$4,107,973	35.60%
CALIFORNIA	$11,233,788	$34,059,804	$47,003,572	318.41%
ILLINOIS	$7,778,798	$19,506,448	$19,302,519	148.14%
INDIANA	$1,548,773	$7,219,440	$10,795,303	597.02%
LOUISIANA	$1,170,900	$3,141,621	$7,455,352	536.72%
MASSACHUSETTS	$11,069,151	$9,201,194	$13,201,368	19.26%
MICHIGAN	$3,436,906	$8,340,342	$18,305,175	432.61%
MINNESOTA	$7,402,751	$12,404,455	$8,139,104	9.95%
NEW JERSEY	$7,851,611	$3,427,307	$6,886,526	-12.29%
NEW MEXICO	$639,806	$991,411	$1,620,121	153.22%
NEW YORK				
NORTH CAROLINA	$7,251,476	$7,743,019	$9,929,731	36.93%
OHIO	$7,259,862	$10,234,687	$11,234,569	54.75%
TENNESSEE	$4,941,199	$4,838,791	$9,236,850	86.94%
TEXAS	$10,497,220	$9,351,434	$19,268,474	83.56%
VIRGINIA	$2,157,537	$2,843,018	$3,309,825	53.41%
WASHINGTON	$2,979,557	$8,017,845	$7,606,094	155.28%

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

Appendix Table 2.12: FFY97

State	Total FFY97 Quality Spending	Cost Per Hour (1)	Cost Index (1)	Adjusted FFY97 Quality Spending	Children of Employed Parents (2)	Adjusted Total FFY97 Quality Spending Per Capita
ALABAMA	$3,029,450	$6.92	0.896	$3,381,083	494,736	$6.83
CALIFORNIA	$11,233,788	$9.99	1.294	$8,681,444	3,482,175	$2.49
ILLINOIS	$7,778,798	$8.59	1.113	$6,989,037	1,408,064	$4.96
INDIANA	$1,548,773	$8.59	1.113	$1,391,530	712,963	$1.95
LOUISIANA	$1,170,900	$6.12	0.793	$1,476,545	450,830	$3.28
MASSACHUSETTS	$11,069,151	$8.59	1.113	$9,945,329	632,088	$15.73
MICHIGAN	$3,436,906	$8.59	1.113	$3,087,966	1,136,890	$2.72
MINNESOTA	$7,402,751	$7.84	1.016	$7,286,172	637,526	$11.43
NEW JERSEY	$7,851,611	$8.46	1.096	$7,163,879	798,882	$8.97
NEW MEXICO	$639,806	$7.20	0.933	$685,751	234,976	$2.92
NEW YORK		$8.46	1.096	$0	1,733,021	$0.00
NORTH CAROLINA	$7,251,476	$6.89	0.892	$8,129,457	819,594	$9.92
OHIO	$7,259,862	$8.59	1.113	$6,522,787	1,260,234	$5.18
TENNESSEE	$4,941,199	$6.92	0.896	$5,514,731	670,983	$8.22
TEXAS	$10,497,220	$6.12	0.793	$13,237,352	2,309,569	$5.73
VIRGINIA	$2,157,537	$6.89	0.892	$2,418,763	685,213	$3.53
WASHINGTON	$2,979,557	$9.99	1.294	$2,302,594	667,080	$3.45

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

(1) Because there is no cross-sectional Consumer Price Index, it is necessary to use an index based on labor price differentials to adjust quality expenditures in the 25 study sites. Such an index could be constructed using the average hourly wage rate for various types of labor. Since there is no compelling argument for using one type of labor over another to construct this index, we elected to use the Child Care Cost Index (CCCI), which is based on wage rates for child care workers, to adjust quality expenditures. See footnote (1), Appendix table 2.3 for description of CCCI.

(2) The estimated number of children of employed parents is the result of a simulation model estimate conducted by the Urban Institute using data on income, employment, and disability status from the combined March 1995, March 1996 and March 1997 Current Population Surveys, which cover calendar years 1996-1998. We used these estimates in the absence of data on children in all forms of child care.

Appendix Table 2.12: FFY98

State	Total FFY98 Quality Spending	Cost Per Hour (1)	Cost Index (1)	Adjusted FFY98 Quality Spending	Children of Employed Parents (2)	Adjusted Total FFY98 Quality Spending Per Capita
ALABAMA	$3,295,560	$6.92	0.896	$3,678,080	494,772	$7.43
CALIFORNIA	$34,059,804	$9.99	1.294	$26,321,332	3,482,175	$7.56
ILLINOIS	$19,506,448	$8.59	1.113	$17,526,009	1,408,064	$12.45
INDIANA	$7,219,440	$8.59	1.113	$6,486,469	712,963	$9.10
LOUISIANA	$3,141,621	$6.12	0.793	$3,961,691	450,830	$8.79
MASSACHUSETTS	$9,201,194	$8.59	1.113	$8,267,021	632,088	$13.08
MICHIGAN	$8,340,342	$8.59	1.113	$7,493,569	1,136,890	$6.59
MINNESOTA	$12,404,455	$7.84	1.016	$12,209,109	637,526	$19.15
NEW JERSEY	$3,427,307	$8.46	1.096	$3,127,105	798,882	$3.91
NEW MEXICO	$991,411	$7.20	0.933	$1,062,606	234,976	$4.52
NEW YORK		$8.46	1.096	$0	1,733,021	$0.00
NORTH CAROLINA	$7,743,019	$6.89	0.892	$8,680,515	819,594	$10.59
OHIO	$10,234,687	$8.59	1.113	$9,195,586	1,260,234	$7.30
TENNESSEE	$4,838,791	$6.92	0.896	$5,400,436	670,983	$8.05
TEXAS	$9,351,434	$6.12	0.793	$11,792,477	2,309,569	$5.11
VIRGINIA	$2,843,018	$6.89	0.892	$3,187,240	685,213	$4.65
WASHINGTON	$8,017,845	$9.99	1.294	$6,196,171	667,080	$9.29

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

(1) Because there is no cross-sectional Consumer Price Index, it is necessary to use an index based on labor price differentials to adjust quality expenditures in the 25 study sites. Such an index could be constructed using the average hourly wage rate for various types of labor. Since there is no compelling argument for using one type of labor over another to construct this index, we elected to use the Child Care Cost Index (CCCI), which is based on wage rates for child care workers, to adjust quality expenditures. See footnote (1), Appendix table 2.3 for description of CCCI.

(2) The estimated number of children of employed parents is the result of a simulation model estimate conducted by the Urban Institute using data on income, employment, and disability status from the combined March 1995, March 1996 and March 1997 Current Population Surveys, which cover calendar years 1996-1998. We used these estimates in the absence of data on children in all forms of child care.

Appendix Table 2.12: FFY99

State	Total FFY99 Quality Spending	Cost Per Hour (1)	Cost Index (1)	Adjusted FFY99 Quality Spending	Children Of Employed Parents (2)	Total FFY99 Quality Spending Per Capita
ALABAMA	$4,107,973	$6.92	0.896	$4,584,791	494,736	$9.27
CALIFORNIA	$47,003,572	$9.99	1.294	$36,324,244	3,482,175	$10.43
ILLINOIS	$19,302,519	$8.59	1.113	$17,342,784	1,408,064	$12.32
INDIANA	$10,795,303	$8.59	1.113	$9,699,284	712,963	$13.60
LOUISIANA	$7,455,352	$6.12	0.793	$9,401,453	450,830	$20.85
MASSACHUSETTS	$13,201,368	$8.59	1.113	$11,861,067	632,088	$18.76
MICHIGAN	$18,305,175	$8.59	1.113	$16,446,698	1,136,890	$14.47
MINNESOTA	$8,139,104	$7.84	1.016	$8,010,929	637,526	$12.57
NEW JERSEY	$6,886,526	$8.46	1.096	$6,283,327	798,882	$7.87
NEW MEXICO	$1,620,121	$7.20	0.933	$1,736,464	234,976	$7.39
NEW YORK		$8.46	1.096	$0	1,733,021	$0.00
NORTH CAROLINA	$9,929,731	$6.89	0.892	$11,131,985	819,594	$13.58
OHIO	$11,234,569	$8.59	1.113	$10,093,952	1,260,234	$8.01
TENNESSEE	$9,236,850	$6.92	0.896	$10,308,984	670,983	$15.36
TEXAS	$19,268,474	$6.12	0.793	$24,298,202	2,309,569	$10.52
VIRGINIA	$3,309,825	$6.89	0.892	$3,710,566	685,213	$5.42
WASHINGTON	$7,606,094	$9.99	1.294	$5,877,971	667,080	$8.81

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

(1) Because there is no cross-sectional Consumer Price Index, it is necessary to use an index based on labor price differentials to adjust quality expenditures in the 25 study sites. Such an index could be constructed using the average hourly wage rate for various types of labor. Since there is no compelling argument for using one type of labor over another to construct this index, we elected to use the Child Care Cost Index (CCCI), which is based on wage rates for child care workers, to adjust quality expenditures. See footnote (1), Appendix table 2.3 for description of CCCI.

(2) The estimated number of children of employed parents is the result of a simulation model estimate conducted by the Urban Institute using data on income, employment, and disability status from the combined March 1995, March 1996 and March 1997 Current Population Surveys, which cover calendar years 1996-1998. We used these estimates in the absence of data on children in all forms of child care.

Appendix Table 2.13: FFY97

State	Total FFY97 Quality Spending	4% of Spending from Required CCDF Sources (1)	Amount of Spending Over 4%	Cost Per Hour (2)	Cost Index(2)	Adjusted FFY97 Quality Spending	Adjusted Amount of Spending Over 4%	Children of Employed Parents (3)	Adjusted Total FFY97 Spending Per Capita Over 4%
ALABAMA	$3,029,450	$1,530,696	$1,498,754	$6.92	0.896	$3,381,083	$1,672,717	494,736	$3.38
CALIFORNIA	$11,233,788	$11,812,379	($578,591)	$9.99	1.294	$8,681,444	($447,134)	3,482,175	($0.13)
ILLINOIS	$7,778,798	$6,450,873	$1,327,925	$8.59	1.113	$6,989,037	$1,193,104	1,408,064	$0.85
INDIANA	$1,548,773	$1,673,269	($124,496)	$8.59	1.113	$1,391,530	($111,856)	712,963	($0.16)
LOUISIANA	$1,170,900	$944,204	$226,696	$6.12	0.793	$1,476,545	$285,871	450,830	$0.63
MASSACHUSETTS	$11,069,151	$7,816,080	$3,253,071	$8.59	1.113	$9,945,329	$2,922,795	632,088	$4.62
MICHIGAN	$3,436,906	$5,291,660	($1,854,754)	$8.59	1.113	$3,087,966	($1,666,446)	1,136,890	($1.47)
MINNESOTA	$7,402,751	$2,274,222	$5,128,529	$7.84	1.016	$7,286,172	$5,047,765	637,526	$7.92
NEW JERSEY	$7,851,611	$3,511,051	$4,340,560	$8.46	1.096	$7,163,879	$3,960,365	798,882	$4.96
NEW MEXICO	$639,806	$639,806	$0	$7.20	0.933	$685,751	$0	234,976	$0.00
NEW YORK			$0	$8.46	1.096	$0	$0	1,733,021	$0.00
NORTH CAROLINA	$7,251,476	$4,287,169	$2,964,307	$6.89	0.892	$8,129,457	$3,323,214	819,594	$4.05
OHIO	$7,259,862	$5,826,781	$1,433,081	$8.59	1.113	$6,522,787	$1,287,584	1,260,234	$1.02
TENNESSEE	$4,941,199	$3,555,954	$1,385,245	$6.92	0.896	$5,514,731	$1,546,032	670,983	$2.30
TEXAS	$10,497,220	$6,357,216	$4,140,004	$6.12	0.793	$13,237,352	$5,220,686	2,309,569	$2.26
VIRGINIA	$2,157,537	$2,173,497	($15,960)	$6.89	0.892	$2,418,763	($17,892)	685,213	($0.03)
WASHINGTON	$2,979,557	$2,825,482	$154,075	$9.99	1.294	$2,302,594	$119,069	667,080	$0.18

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

(1)Amounts in this column are 4% of annual aggregate spending from federal Mandatory, Matching, and Discretionary (including transferred TANF), state Matching and former CCDBG funds. The CCDF's 4% minimum requirement applies to these allocations at the end of their multi-year liquidation periods. It does not apply to each year's spending. All the study states reported spending at least the minimum required on quality within the liquidation periods.

(2) Because there is no cross-sectional Consumer Price Index, it is necessary to use an index based on labor price differentials to adjust quality expenditures in the 25 study sites. Such an index could be constructed using the average hourly wage rate for various types of labor. Since there is no compelling argument for using one type of labor over another to construct this index, we elected to use the Child Care Cost Index (CCCI), which is based on wage rates for child care workers, to adjust quality expenditures. See footnote (1), Appendix table 2.3 for description of CCCI.

(3) The estimated number of children of employed parents is the result of a simulation model estimate conducted by the Urban Institute using data on income, employment, and disability status from the combined March 1996, March 1997 and March 1998 Current Population Surveys, which cover calendar years 1995-1997. We used these estimates in the absence of data on children in all forms of child care.

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Appendix Table 2.13: FFY98

State	Total FFY98 Quality Spending	4% of Spending from Required CCDF Sources (1)	Amount of Spending Over 4%	Cost Per Hour (2)	Cost Index (2)	Adjusted FFY98 Quality Spending	Adjusted Amount of Spending Over 4%	Children of Employed Parents (3)	Adjusted Total FFY97 Spending Per Capita Over 4%
ALABAMA	$3,295,560	$2,444,725	$850,835	$6.92	0.896	$3,678,080	$949,593	494,772	$1.92
CALIFORNIA	$34,059,804	$19,243,334	$14,816,470	$9.99	1.294	$26,321,332	$11,450,131	3,482,175	$3.29
ILLINOIS	$19,506,448	$6,886,147	$12,620,301	$8.59	1.113	$17,526,009	$11,338,995	1,408,064	$8.05
INDIANA	$7,219,440	$4,920,488	$2,298,952	$8.59	1.113	$6,486,469	$2,065,545	712,963	$2.90
LOUISIANA	$3,141,621	$3,195,006	($53,385)	$6.12	0.793	$3,961,691	($67,320)	450,830	($0.15)
MASSACHUSETTS	$9,201,194	$6,907,302	$2,293,892	$8.59	1.113	$8,267,021	$2,060,999	632,088	$3.26
MICHIGAN	$8,340,342	$10,872,964	($2,532,622)	$8.59	1.113	$7,493,569	($2,275,491)	1,136,890	($2.00)
MINNESOTA	$12,404,455	$2,957,799	$9,446,656	$7.84	1.016	$12,209,109	$9,297,890	637,526	$14.58
NEW JERSEY	$3,427,307	$3,472,640	($45,333)	$8.46	1.096	$3,127,105	($41,362)	798,882	($0.05)
NEW MEXICO	$991,411	$1,576,187	($584,776)	$7.20	0.933	$1,062,606	($626,770)	234,976	($2.67)
NEW YORK		$0	$0	$8.46	1.096		$0	1,733,021	$0.00
NORTH CAROLINA	$7,743,019	$6,360,564	$1,382,455	$6.89	0.892	$8,680,515	$1,549,837	819,594	$1.89
OHIO	$10,234,687	$6,134,568	$4,100,119	$8.59	1.113	$9,195,586	$3,683,844	1,260,234	$2.92
TENNESSEE	$4,838,791	$4,737,711	$101,080	$6.92	0.896	$5,400,436	$112,813	670,983	$0.17
TEXAS	$9,351,434	$9,599,099	($247,665)	$6.12	0.793	$11,792,477	($312,314)	2,309,569	($0.14)
VIRGINIA	$2,843,081	$2,924,153	($81,072)	$6.89	0.892	$3,187,311	($90,888)	685,213	($0.13)
WASHINGTON	$8,017,845	$4,808,566	$3,209,279	$9.99	1.294	$6,196,171	$2,480,123	667,080	$3.72

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

(1) Amounts in this column are 4% of annual aggregate spending from federal Mandatory, Matching, and Discretionary (including transferred TANF), state Matching and former CCDBG funds. The CCDF's 4% minimum requirement applies to these allocations at the end of their multi-year liquidation periods. It does not apply to each year's spending. All the study states reported spending at least the minimum required on quality within the liquidation periods.

(2) Because there is no cross-sectional Consumer Price Index, it is necessary to use an index based on labor price differentials to adjust quality expenditures in the 25 study sites. Such an index could be constructed using the average hourly wage rate for various types of labor. Since there is no compelling argument for using one type of labor over another to construct this index, we elected to use the Child Care Cost Index (CCCI), which is based on wage rates for child care workers, to adjust quality expenditures. See footnote (1), Appendix table 2.3 for description of CCCI.

(3) The estimated number of children of employed parents is the result of a simulation model estimate conducted by the Urban Institute using data on income, employment, and disability status from the combined March 1995, March 1996 and March 1997 Current Population Surveys, which cover calendar years 1996-1998. We used these estimates in the absence of data on children in all forms of child care.

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Appendix Table 2.13: FFY99

State	Total FFY99 Quality Spending	4% of Spending from Required CCDF Sources (1)	Amount of Spending Over 4%	Cost Per Hour (2)	Cost Index (2)	Adjusted FFY99 Quality Spending	Adjusted Amount of Spending Over 4%	Children of Employed Parents (3)	Adjusted Total FFY97 Spending Per Capita Over 4%
ALABAMA	$4,107,973	$2,703,117	$1,404,856	$6.92	0.896	$4,584,791	$1,567,920	494,736	$3.17
CALIFORNIA	$47,003,572	$28,452,250	$18,551,322	$9.99	1.294	$36,324,244	$14,336,416	3,482,175	$4.12
ILLINOIS	$19,302,519	$11,916,213	$7,386,306	$8.59	1.113	$17,342,784	$6,636,394	1,408,064	$4.71
INDIANA	$10,795,303	$5,011,897	$5,783,406	$8.59	1.113	$9,699,284	$5,196,232	712,963	$7.29
LOUISIANA	$7,455,352	$4,532,009	$2,923,343	$6.12	0.793	$9,401,453	$3,686,435	450,830	$8.18
MASSACHUSETTS	$13,201,368	$7,963,345	$5,238,023	$8.59	1.113	$11,861,067	$4,706,220	632,088	$7.45
MICHIGAN	$18,305,175	$6,807,227	$11,497,948	$8.59	1.113	$16,446,698	$10,330,591	1,136,890	$9.09
MINNESOTA	$8,139,104	$5,077,675	$3,061,429	$7.84	1.016	$8,010,929	$3,013,218	637,526	$4.73
NEW JERSEY	$6,866,526	$6,187,836	$678,690	$8.46	1.096	$6,265,078	$619,243	798,882	$0.78
NEW MEXICO	$1,620,121	$1,620,526	($405)	$7.20	0.933	$1,736,464	($434)	234,976	($0.00)
NEW YORK		$0	$0	$8.46	1.096		$0	1,733,021	$0.00
NORTH CAROLINA	$9,929,731	$8,351,785	$1,577,946	$6.89	0.892	$11,131,985	$1,768,998	819,594	$2.16
OHIO	$11,234,569	$6,469,916	$4,764,653	$8.59	1.113	$10,093,952	$4,280,910	1,260,234	$3.40
TENNESSEE	$9,236,850	$5,446,146	$3,790,704	$6.92	0.896	$10,308,984	$4,230,696	670,983	$6.31
TEXAS	$19,268,474	$12,928,820	$6,339,654	$6.12	0.793	$24,298,202	$7,994,520	2,309,569	$3.46
VIRGINIA	$3,309,825	$4,592,841	($1,283,016)	$6.89	0.892	$3,710,566	($1,438,359)	685,213	($2.10)
WASHINGTON	$7,606,094	$7,110,181	$495,913	$9.99	1.294	$5,877,971	$383,240	667,080	$0.57

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

(1) Amounts in this column are 4% of annual aggregate spending from federal Mandatory, Matching, and Discretionary (including transferred TANF), state Matching and former CCDBG funds. The CCDF's 4% minimum requirement applies to these allocations at the end of their multi-year liquidation periods. It does not apply to each year's spending. All the study states reported spending at least the minimum required on quality within the liquidation periods.

(2) Because there is no cross-sectional Consumer Price Index, it is necessary to use an index based on labor price differentials to adjust quality expenditures in the 25 study sites. Such an index could be constructed using the average hourly wage rate for various types of labor. Since there is no compelling argument for using one type of labor over another to construct this index, we elected to use the Child Care Cost Index (CCCI), which is based on wage rates for child care workers, to adjust quality expenditures. See footnote (1), Appendix table 2.3 for description of CCCI.

(3) The estimated number of children of employed parents is the result of a simulation model estimate conducted by the Urban Institute using data on income, employment, and disability status from the combined March 1995, March 1996 and March 1997 Current Population Surveys, which cover calendar years 1996-1998. We used these estimates in the absence of data on children in all forms of child care.

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Appendix Table 2.14: Quality Spending as Percentage of Total Spending, by Federal Fiscal Year

State	FFY 1997 Quality Spending	% of Total	FFY 1998 Quality Spending	% of Total	FFY 1999 Quality Spending	% of Total
ALABAMA	$3,029,450	6.38%	$3,295,560	4.30%	$4,107,973	4.91%
CALIFORNIA	$11,233,788	1.27%	$34,059,804	2.50%	$47,003,572	2.27%
ILLINOIS	$7,778,798	2.31%	$19,506,448	5.30%	$19,302,519	3.52%
INDIANA	$1,548,773	2.71%	$7,219,440	5.20%	$10,795,303	6.91%
LOUISIANA	$1,170,900	4.06%	$3,141,621	3.70%	$7,455,352	6.29%
MASSACHUSETTS	$11,069,151	4.32%	$9,201,194	3.50%	$13,201,368	4.40%
MICHIGAN	$3,436,906	1.30%	$8,340,342	1.88%	$18,305,175	3.55%
MINNESOTA	$7,402,751	8.89%	$12,404,455	9.13%	$8,139,104	3.81%
NEW JERSEY	$7,851,611	5.41%	$3,427,307	2.27%	$6,886,526	3.25%
NEW MEXICO	$639,806	2.85%	$991,411	2.15%	$1,620,121	3.48%
NEW YORK						
NORTH CAROLINA	$7,251,476	3.72%	$7,743,019	3.05%	$9,929,731	3.48%
OHIO	$7,259,862	3.67%	$10,234,687	4.85%	$11,234,569	4.59%
TENNESSEE	$4,941,199	4.19%	$4,838,791	3.26%	$9,236,850	5.34%
TEXAS	$10,497,220	4.99%	$9,351,434	3.38%	$19,268,474	5.38%
VIRGINIA	$2,157,537	2.85%	$2,843,018	3.01%	$3,309,825	2.43%
WASHINGTON	$2,979,557	2.67%	$8,017,845	4.94%	$7,606,094	3.46%

Source: Information provided by study states, drawn from their ACF-696 and ACF-196 financial reports to the U.S. Department of Health and Human Services and additional sources. Data not available for New York.

Appendix Table 3.1
Child Care Subsidy Usage for April 1997, April 1998, and April 1999

State	APRIL 1997 Enrollment	APRIL 1998 Enrollment	APRIL 1999 Enrollment	% Change 1997-1999
ALABAMA	21,875	29,731	32,910	50%
CALIFORNIA*				
ILLINOIS	98,777	119,888	167,951	70%
INDIANA	18,000	29,311	37,828	110%
LOUISIANA	15,475	28,754	41,902	171%
MASSACHUSETTS	51,804	46,209	69,308	34%
MICHIGAN	71,312	102,336	118,045	66%
MINNESOTA	24,485	32,721	35,565	45%
NEW JERSEY*			34,086	
NEW MEXICO	7,950	14,876	18,563	133%
NEW YORK	81,001	119,978	151,848	87%
NORTH CAROLINA	72,532	86,061	92,921	28%
OHIO*	60,053	63,225	66,114	10%
TENNESSEE	51,608	55,213	56,159	9%
TEXAS	41,721	76,957	109,963	164%
VIRGINIA	33,363	39,613	65,767	97%
WASHINGTON	42,070	51,520	57,966	38%

Source: Information provided by the study states drawn from their ACF-800, ACF-801 reports to the U.S. Department of Health and Human Services and additional sources. Includes subsidies from all sources of funding as reported in chapter 2.

* No information provided for one or both years

Appendix Table 3.2
Percent of Federally-Eligible Children Served by Subsidies
April 1997 and April 1999

State	APRIL 1997 Enrollment	APRIL 1999 Enrollment	Federally-Eligible Children**	% 1997 Served	% 1999 Served
ALABAMA	21,875	32,910	232,113	9%	14%
CALIFORNIA*			1,732,009		
ILLINOIS	98,777	167,951	675,876	15%	25%
INDIANA	18,000	37,828	298,991	6%	13%
LOUISIANA	15,475	41,902	219,523	7%	19%
MASSACHUSETTS	51,804	69,308	301,560	17%	23%
MICHIGAN	71,312	118,045	544,854	13%	22%
MINNESOTA	24,485	35,565	297,578	8%	12%
NEW JERSEY*		34,086	350,500		10%
NEW MEXICO	7,950	18,563	127,184	6%	15%
NEW YORK	81,001	151,848	879,719	9%	17%
NORTH CAROLINA	72,532	92,921	411,074	18%	23%
OHIO	7,950	66,114	579,749	1%	11%
TENNESSEE	51,608	56,159	345,716	15%	16%
TEXAS	41,721	109,963	1,159,061	4%	9%
VIRGINIA	33,363	65,767	348,077	10%	19%
WASHINGTON	42,070	57,966	310,329	14%	19%

Source: Enrollment data provided by the study states drawn from their ACF- 800 and ACF-801 reports to the U.S. Department of Health and Human Services and additional Sources reflects subsidies from all sources of funding reported in Chapter 2.

* No information provided for one or both years.

** The number of federally-eligible children is the result of a simulation model conducted by the Urban Institute using data on income, and employment from the combined March 1995, 1996, and 1997 Current Population Surveys.

Appendix Table 3.3
TANF Caseloads for 1997 and 1999

STATE	1997 RECIPIENTS	1999 RECIPIENTS	1997 - 1999 CHANGE	PERCENT CHANGE
ALABAMA	89,239	47,325	-41,914	-47%
CALIFORNIA	2,424,344	1,804,232	-620,112	-26%
ILLINOIS*		110,371		
INDIANA	568,128	335,461	-232,667	-41%
LOUISIANA*		89,439		
MASSACHUSETTS	207,029	131,139	-75,890	-37%
MICHIGAN	442,899	250,185	-192,714	-44%
MINNESOTA	140,908	138,829	-2,079	-1%
NEW JERSEY*	253,783	149,151	-104,632	-41%
NEW MEXICO	83,386	78,826	-4,560	-5%
NEW YORK	1,050,635	817,579	-233,056	-22%
NORTH CAROLINA*				
OHIO*				
TENNESSEE	175,147	147,038	-28,109	-16%
TEXAS	591,998	357,659	-234,339	-40%
VIRGINIA	129,071	92,143	-36,928	-29%
WASHINGTON	258,175	172,585	-85,590	-33%

Source: data supplied by the study states.

* Data for 1997 and/or 1999 not provided.

Appendix Table 3.4
Percent of Children Receiving TANF Who Also Received Subsidies
April 1997 and April 1999

	APRIL 1997			APRIL 1999		
State	**1997 Child TANF Recipients**	**TANF Children Receiving Subsidies**	**% of TANF Child Caseload Receiving Subsidies**	**1999 Child TANF Recipients**	**TANF Children Receiving Subsidies**	**% of TANF Child Caseload Receiving Subsidies**
ALABAMA	66,292	4,365	7%	37,302	3,369	9%
CALIFORNIA*	1,685,211			1,306,488		
INDIANA*				76,843		
ILLINOIS	399,889	43,090	11%	246,049	63,154	26%
LOUISIANA*		5,320		68,222	14,351	21%
MASSACHUSETTS*		13,372			12,249	
MICHIGAN	302,225	20,544	7%	179,272	26,071	15%
MINNESOTA	96,307	6,695	7%	94,741	14,177	15%
NEW JERSEY*	171,598			102,152	9,885	10%
NEW MEXICO*	54,041			50,070	5,429	11%
NEW YORK	693,122	45,410	7%	548,736	88,718	16%
NORTH CAROLINA*		17,671			12,273	
OHIO*	72,532			86,061		
TENNESSEE	125,251	27,464	22%	107,389	24,607	23%
TEXAS	414,161	12,256	3%	260,350	18,119	7%
VIRGINIA	92,931	24,787	27%	66,343	35,555	54%
WASHINGTON*		18,435			21,030	

* State did not supply number of child TANF recipients or number of TANF children receiving subsidies for one or both years.

Source: Data on the number of TANF recipients receiving subsidies supplied by the study states drawn from ACF-800 and ACF-801 reports to the U.S. Department of Health and Human Services and from additional sources. Data on TANF child recipients supplied by the state.

Other Federal %
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Appendix Table 3.5
Number and Percent of Children Receiving Subsidies by TANF Status
April 1997

State	TANF	Transitional	Others	Total	% TANF	% Transitional	% All Others	% Transitional + All Others
ALABAMA	4,365	2,648	14,862	21,875	20%	12%	68%	80%
CALIFORNIA*								
ILLINOIS	43,090	17,142	38,545	98,777	44%	17%	39%	56%
INDIANA*				18,000				
LOUISIANA*	5,320		10,155	15,475	34%		66%	
MASSACHUSETTS*	13,372	10,045	28,387	51,804	26%	19%	55%	74%
MICHIGAN*	20,544	11,125	39,643	71,312	29%	16%	56%	71%
MINNESOTA	6,695	3,404	14,386	24,485	27%	14%	59%	73%
NEW JERSEY								
NEW MEXICO*				7,950				
NEW YORK	45,410	5,921	29,670	81,001	56%	7%	37%	44%
NORTH CAROLINA**	17,671		54,861	72,532	24%		76%	77%
OHIO	23,841	7,180	29,032	60,053	40%	12%	48%	60%
TENNESSEE	27,464	10,825	13,319	51,608	53%	21%	26%	47%
TEXAS	12,256	12,287	17,178	41,721	29%	29%	41%	71%
VIRGINIA	24,787	3,757	4,819	33,363	74%	11%	14%	26%
WASHINGTON	18,435	6,479	17,156	42,070	44%	15%	41%	56%

* State did not supply child care subsidy enrollments by TANF status.

** State does not track by transitional child care status.

Source: Information provided by the study states drawn from their ACF-800, ACF-801 reports to the U.S. Department of Health and Human Services and additional sources. Includes subsidies from all sources of funding as reported in chapter 2.

Appendix 3.6
Number and Percent of Children Receiving Subsidies by TANF Status
April 1999

State	TANF	Transitional	Others	Total	% TANF	% Transitional	% All Others	% Transitional + All Others
ALABAMA	3,369	3,896	25,645	32,910	10%	12%	78%	90%
CALIFORNIA*								
ILLINOIS**	63,154		104,797	167,951	38%		62%	64%
INDIANA*				37,828				
LOUISIANA**	14,351		27,551	41,902	34%		66%	66%
MASSACHUSETTS	12,249	17,853	39,206	69,308	18%	26%	57%	82%
MICHIGAN	26,071	22,546	69,195	118,045	22%	19%	59%	78%
MINNESOTA	14,177	3,749	17,639	35,565	40%	11%	50%	60%
NEW JERSEY	9,885	8,181	16,020	34,086	29%	24%	47%	71%
NEW MEXICO	5,429	372	12,762	18,563	29%	2%	69%	71%
NEW YORK**	88,718		63,130	151,848	58%		42%	42%
NORTH CAROLINA**	12,273		80,648	92,921	13%		87%	87%
OHIO	15,993	9,949	40,172	66,114	24%	15%	61%	76%
TENNESSEE	24,607	15,006	16,546	56,159	44%	27%	29%	56%
TEXAS	18,119	11,698	80,146	109,963	16%	11%	73%	84%
VIRGINIA	35,555	4,756	25,456	65,767	54%	7%	39%	46%
WASHINGTON**	21,030		36936	57,966	36%		64%	64%

* State did not supply child care subsidy enrollments by TANF status.

** States do not track by transitional child care status.

Source: Information provided by the study states drawn from their ACF-800, ACF-801 reports to the U.S. Department of Health and Human Services and additional sources. Includes subsidies from all sources of funding as reported in chapter 2.

Appendix Table 3.7
Maximum Income Eligiblity for a Family of Three Not Receiving TANF As a Percentage of State Median Income
June 1999

State	Income eligibilty	SMI*	85% of SMI	Income eligibility as Percent of SMI
ALABAMA	$17,328	$40,520	$31,808	43%
CALIFORNIA	$33,924	$46,382	$29,452	73%
INDIANA	$25,932	$48,562	$36,520	53%
ILLINOIS	$24,243	$45,008	$36,520	54%
LOUISIANA	$29,580	$32,518	$29,452	91%
MASSACHUSETTS	$23,172	$54,610	$36,520	42%
MICHIGAN	$26,064	$48,318	$34,164	54%
MINNESOTA	$35,410	$50,884	$43,589	70%
NEW JERSEY	$27,300	$56,562	$38,876	48%
NEW MEXICO	$27,756	$33,628	$22,384	83%
NEW YORK	$28,056	$46,966	$27,096	60%
NORTH CAROLINA	$32,628	$43,504	$34,164	75%
OHIO	$25,680	$46,978	$34,164	55%
TENNESSEE	$22,702	$40,524	$29,492	56%
TEXAS	$20,475	$40,326	$27,096	51%
VIRGINIA	$25,692	$47,922	$36,525	54%
WASHINGTON	$28,644	$48,234	$36,520	59%

Source: Information supplied by the study states

* State Median Income

Appendix 3.8
Percent of Children Eligible Under State Eligibility Guidelines
April 1999

State	April 1999 Enrollment	1999 State Eligible	% 1999 State Eligible Served
ALABAMA	32,910	111,552	30%
CALIFORNIA		1,511,070	
ILLINOIS	167,951	359,000	47%
INDIANA	37,828	190,137	20%
LOUISIANA	41,902	207,807	20%
MASSACHUSETTS	69,308	138,133	50%
MICHIGAN	118,045	359,034	33%
MINNESOTA	35,565	248,544	14%
NEW JERSEY	34,086	184,126	19%
NEW MEXICO	18,563	127,637	15%
NEW YORK	151,848	633,245	24%
NORTH CAROLINA	92,921	331,351	28%
OHIO	66,114	341,076	19%
TENNESSEE	56,159	218,912	26%
TEXAS	109,963	724,664	15%
VIRGINIA	65,767	244,231	27%
WASHINGTON	57,966	267,786	22%

Source: Information provided by the study states drawn from their ACF-800, ACF-801 reports to the U.S. Department of Health and Human Services and additional sources. Includes subsidies from all sources of funding as reported in Chapter 2.

Appendix 3.10
Adjusted Payment Rates:
Three Year-Old Child in Full-Time Center Care in the Study County Located in the State With the Highest Reimbursement Rate June 1999

State	County	Unadjusted Rate	CC Labor Cost Index	Adjusted Rate
ALABAMA	Mobile	$74.00	0.896	$82.59
CALIFORNIA	Orange	$141.68	1.294	$109.49
INDIANA	Madison	$70.00	1.113	$62.89
ILLINOIS	Cook	$118.75	1.113	$106.69
LOUISIANA	Ouchita	$65.00	0.793	$81.97
MASSACHUSETTS	Franklin	$127.50	1.113	$114.56
MICHIGAN	Wayne	$189.00	1.113	$169.81
MINNESOTA	Hennepin	$137.00	1.016	$134.84
NORTH CAROLINA	Mecklenburg	$119.75	0.892	$134.25
NEW JERSEY	Union	$108.80	1.096	$99.27
NEW MEXICO	Dona Ana	$72.40	0.933	$77.60
NEW YORK	Orange	$125.00	1.096	$114.05
OHIO	Hamilton	$121.00	1.113	$108.72
TENNESSEE	Shelby	$72.00	0.896	$80.36
TEXAS	Harris	$86.28	0.793	$108.80
VIRGINIA	Arlington	$157.00	0.892	$176.01
WASHINGTON	King	$120.00	1.294	$92.74

Source: payment rates supplied by the states. The Child Care Labor Cost Index is defined as : CCCIi = Wi/WN), where Wi = average hourly wage rate for child care workers in Region i, and WN = national average hourly wage rate for child care workers. Adjusted child care expenditures in State j = actual child care expenditures in State j divided by CCCIi, when State i is located in Region j. Average hourly wage rates for child care workers were obtained from the 1997 Census Bureau's National Compensation Survey. Wages are estimated for 9 Census regions, nationally.

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Appendix 3.11

Co-Payments as Proportion of Income for Families at 33% and 50% of State Median Income

June 1999

State	Weekly co-payment @ 33%SMI	Weekly Co-payment @50%SMI	Annual Income at 100% SMI	Weekly Income at 33% SMI	Weekly Income at 50% SMI	Co-payment as % of weekly income at 33%SMI	Co-payment as % of weekly income at 50%SMI	% Notch Between Co-payment as 33% and 50% SMI
ALABAMA	30.00	Ineligible	40,520.00	259.76	389.65	12%	na	**na**
CALIFORNIA	-	-	46,382.00	297.34	446.02	0%	0%	**0%**
INDIANA	15.00	45.00	48,562.00	311.32	466.98	5%	10%	**5%**
ILLINOIS	16.00	44.00	45,008.00	288.53	432.80	6%	10%	**5%**
LOUISIANA	-	13.00	32,518.00	208.46	312.70	0%	4%	**4%**
MASSACHUSETTS	60.00	Ineligible	54,610.00	350.09	525.14	17%	na	
MICHIGAN	21.42	21.42	48,318.00	309.75	464.63	7%	5%	**-2%**
MINNESOTA	5.08	21.46	50,884.00	326.20	489.31	2%	4%	**3%**
NORTH CAROLINA	25.10	37.65	43,504.00	278.89	418.34	9%	9%	**0%**
NEW JERSEY	36.40	Ineligible	56,562.00	362.60	543.91	10%	na	
NEW MEXICO	10.04	24.58	33,628.00	215.58	323.37	5%	8%	**3%**
NEW YORK	10.96	63.65	46,966.00	301.08	451.63	4%	14%	**10%**
OHIO	23.54	54.93	46,978.00	301.16	451.75	8%	12%	**4%**
TENNESSEE	16.00	40.00	40,524.00	259.79	389.68	6%	10%	**4%**
TEXAS	28.44	42.66	40,326.00	258.52	387.78	11%	11%	**0%**
VIRGINIA	27.96	64.52	47,922.00	307.21	460.82	9%	14%	**5%**
WASHINGTON	19.83	92.50	48,234.00	309.21	463.82	6%	20%	**14%**

Source: Co-payment information supplied by the study states. State median income.

Appendix Table 5.1A
1999 Subsidy Usage by Type of Care

STATE	RELATIVE CARE*	IN-HOME CARE	FAMILY CHILD CARE	CENTER CARE	TOTAL	% RELATIVE	% IN-HOME	% FAM CC	% CENTER
ALABAMA	2,796	59	4,820	25,235	32,910	8%	0%	15%	77%
CALIFORNIA**									
ILLINOIS	56,784	35,638	25,608	49,921	167,951	34%	21%	15%	30%
INDIANA	7,993	2,162	14,153	13,520	37,828	21%	6%	37%	36%
LOUISIANA	14,158	2,883	3,231	21,630	41,902	34%	7%	8%	52%
MASSACHUSETTS	3,784	2,751	12,239	30,318	49,092	8%	6%	25%	62%
MICHIGAN	55,407	19,833	22,546	20,259	118,045	47%	17%	19%	17%
MINNESOTA	5,018	932	19,945	9,670	35,565	14%	3%	56%	27%
NEW JERSEY*	3,308	150	5,315	26,930	35,703	9%	0%	15%	75%
NEW MEXICO	5,837	42	5,140	7,535	18,553	31%	0%	28%	41%
NEW YORK	28,973	13,703	56,013	53,159	151,848	19%	9%	37%	35%
NORTH CAROLINA	3,921	198	12,666	76,136	92,921	4%	0%	14%	82%
OHIO	26	0	23,351	42,836	66,213	0%	0%	35%	65%
TENNESSEE	1,252	68	11,808	43,031	56,159	2%	0%	21%	77%
TEXAS	17,040	0	6,726	86,197	109,963	15%	0%	6%	78%
VIRGINIA***	10,922	235	19,097	35,513	65,767	17%	0%	29%	54%
WASHINGTON	13,848	6,342	14,236	23,540	57,966	24%	11%	25%	41%
TOTAL	231,067	84,996	256,894	565,430	1,138,386	20%	7%	23%	50%

Source: Information provided by the study states drawn from their ACF-800, ACF-801 reports to the U.S. Department of Health and Human Services and additional sources. Includes subsidies from all sources of funding as reported in chapter 2.

* State unable to specify on a monthly basis. Numbers given are based on estimates derived from key informant interview with representatives of the state subsidy agency.

** State did not provide data.

*** State unable to provide figures. Estimates were made by applying proportions of care supported subsidies for FFY 1998 to total utilization number for FFY 1999.

Appendix Table 5.1B
1997 Child Care Subsidy Usage By Type of Care

STATE	RELATIVE CARE*	IN-HOME CARE	FAMILY CHILD CARE	CENTER CARE	TOTAL	% RELATIVE	% IN-HOME	% FAM CC	% CENTER
ALABAMA	2,083	18	3,648	16,126	21,875	10%	0%	17%	74%
CALIFORNIA*									
ILLINOIS	30,112	16,687	14,342	37,636	98,777	30%	17%	15%	38%
INDIANA	3,803	1,005	6,759	6,433	18,000	21%	6%	38%	36%
LOUISIANA	3,495	5,369	2,520	12,165	23,549	15%	23%	11%	52%
MASSACHUSETTS	1,970	3,387	9,986	24,317	39,660	5%	9%	25%	61%
MICHIGAN	25,374	9,503	19,725	16,710	71,312	36%	13%	28%	23%
MINNESOTA	3,455	642	13,731	6,657	24,485	14%	3%	56%	27%
NEW JERSEY*									
NEW MEXICO	2,690	24	2,235	3,001	7,950	34%	0%	28%	38%
NEW YORK	7,826	2,424	28,837	41,914	81,001	10%	3%	36%	52%
NORTH CAROLINA	5,250	53	8,628	58,601	72,532	7%	0%	12%	81%
OHIO	7	-	21,021	39,025	60,053	0%	0%	35%	65%
TENNESSEE	4,874	481	6,626	39,627	51,608	9%	1%	13%	77%
TEXAS*									
VIRGINIA*									
WASHINGTON	8,090	4,695	10,311	18,974	42,070	19%	11%	25%	45%

Source: Information provided by the study states drawn from their ACF-800, ACF-801 reports to the U.S. Department of Health and Human Services and additional sources. Includes subsidies from all sources of funding as reported in chapter 2.

* Numbers not reported for these states.

Appendix 5.2
Change In Proportions Of Types Of Care -- April 1997 to April 1999

	Percent Relative Care			Percent In-Home Care			Percent Family Child Care			Percent Center Care		
STATES	1997	1999	% Change	1997	1999	% Change	1997	1999	% Change	1997	1999	% Change
ALABAMA	10%	8%	-11%	0%	0%	118%	17%	15%	-12%	74%	77%	4%
CALIFORNIA*												
ILLINOIS	30%	34%	11%	17%	21%	26%	15%	15%	5%	38%	30%	-22%
INDIANA	21%	21%	0%	6%	6%	2%	38%	37%	0%	36%	36%	0%
LOUISIANA	15%	15%	0%	23%	23%	0%	11%	11%	0%	52%	52%	0%
MASSACHUSETTS	5%	8%	55%	9%	6%	-34%	25%	25%	-1%	61%	62%	1%
MICHIGAN	36%	47%	32%	13%	17%	26%	28%	19%	-31%	23%	17%	-27%
MINNESOTA	14%	14%	0%	3%	3%	0%	56%	56%	0%	27%	27%	0%
NEW JERSEY*												
NEW MEXICO	34%	31%	-7%	0%	0%	-25%	28%	28%	-1%	38%	41%	8%
NEW YORK	10%	19%	97%	3%	9%	202%	36%	37%	4%	52%	35%	-32%
NORTH CAROLINA	7%	4%	-42%	0%	0%	192%	12%	14%	15%	81%	82%	1%
OHIO	0%	0%	NA*	0%	0%	NA*	35%	35%	NA*	65%	65%	0%
TENNESSEE	9%	2%	-76%	1%	0%	-87%	13%	21%	64%	77%	77%	0%
TEXAS*		15%			0%			6%			78%	
VIRGINIA*		17%			0%			29%			54%	
WASHINGTON	19%	24%	24%	11%	11%	-2%	25%	25%	0%	45%	41%	-10%

* Numbers not reported for these states.

Appendix 5.3
Requirements for Full-Time Family Child Care Caring for 3 Children or Children from One Additional Family

State	Criminal Records and/or Child Abuse Registry Checks?	Home Inspections and/or Monitoring Visits?	Health and Safety Training?	Child Development Training?
ALABAMA	yes (L)	yes (L)	no	no
CALIFORNIA	yes (S)	no	yes (L)	no
INDIANA	yes (S)	yes (S)	no	no
ILLINOIS	yes (S)	no	no	no
LOUISIANA	no	yes (L)	no	no
MASSACHUSETTS	yes (L)	yes (L)	yes (L)	yes (L)
MICHIGAN	yes (L)	yes (L)	yes (L)	yes (L)
MINNESOTA	yes (S)*	no	no	no
NEW JERSEY	no	yes (S)	no	no
NEW MEXICO	yes (S)	yes (S)	yes (S)	yes (S)
NEW YORK	no	no	yes (L)	yes (L)
NORTH CAROLINA	yes (L)	yes (L)	yes (L)	yes (L)
OHIO*	yes (S)	no	yes (S)	yes (S)
TENNESSEE	no	no	no	no
TEXAS	yes (S)	no	no	yes (S)
VIRGINIA	yes (S)	yes (S)	no	no
WASHINGTON	yes (L)	yes (L)	yes (L)	yes (L)

Source: Information supplied by the states.

S= Part of requirements to be subsidized for otherwise license-exempt care.
(May or may not also be required in licensing system)
L= Part of requirements for all care of this type, regardless of whether it is subsidized.
*Optional for the counties. Occurs in the counties in the study.

Appendix Table 5.4
Requirements for Relative Child Care (in relative's home)

State	Criminal Records and/or Child Abuse Registry Checks?	Home Inspections and/or Monitoring Visits?	Health and Safety Training?	Child Development Training?
ALABAMA	no	no	no	no
CALIFORNIA	no	no	no	no
INDIANA	yes	yes	no	no
ILLINOIS	yes	no	no	no
LOUISIANA	no	yes	no	no
MASSACHUSETTS	yes	no	no	no
MICHIGAN	yes	no	no	no
MINNESOTA	yes*	no	no	no
NEW JERSEY	no	yes	no	no
NEW MEXICO	yes	yes	yes	yes
NEW YORK	no	no	no	no
NORTH CAROLINA	yes	no	no	no
OHIO*	yes	no	no	no
TENNESSEE	no	no	no	no
TEXAS	no	no	no	no
VIRGINIA	yes	yes	no	no
WASHINGTON	no	no	no	no

Source: Information supplied by the states.

* At county option, but occurs in both study sites.

Appendix Table 5.5
Requirements for Full-Time In-Home Child Care*

State	Criminal Records and/or Child Abuse Registry Checks?	Home Inspections and/or Monitoring Visits?	Health and Safety Training?	Child Development Training?
CALIFORNIA	yes	no	no	no
INDIANA	yes	yes	no	no
ILLINOIS	yes	no	no	no
LOUISIANA	no	yes	no	no
MASSACHUSETTS	yes	no	no	no
MICHIGAN	yes	no	no	no
NEW JERSEY	no	yes	no	no
NEW YORK	no	no	no	no
WASHINGTON	no	no	no	no

Source: Information supplied by the states

*Does not include regulatory information for states in either 0% or less than 1% of subsidized care occurs in the child's own home with a non-relative
These states include Alabama, Minnesota, New Mexico, North Carolina, Ohio, Tennessee, Texas, and Virginia

Appendix Table 5.6
Comparisons of Payment Rate of Various Forms of Full-Time Care for 3-Year Olds as a Percentage of Family Child Care Rates

State	County or Counties	Licensed Family Child Care	License Exempt Family Child Care	Relative Care Rate as % of Licensed Family Child Care	Relative Care and/or In-Home Care	Relative CareRate as % of Licensed Family Child Care
ALABAMA	Mobile	$68.00	$65.00	96%	$35.00	51%
CALIFORNIA	Los Angeles	$125.26	$112.94	90%	$112.94	90%
CALIFORNIA	Orange	$132.44	$119.10	90%	$119.10	90%
CALIFORNIA	Riverside	$97.02	$87.27	90%	$87.27	90%
INDIANA	Madison	$75.00	$63.00	84%	$63.00	84%
ILLINOIS	Cook	$100.00	$46.25	46%	$46.25	46%
LOUISIANA	Ouchita	$65.00	$50.00	77%	$50.00	77%
MASSACHUSETTS	Franklin	$131.25	N/A	N/A	$75.00	57%
MICHIGAN	Wayne	$168.00	$168.00	100%	$168.00	100%
MINNESOTA	Hennepin	$105.00	$94.50	90%	$94.50	90%
MINNESOTA	Itasca, Koochiching, Pennington	$90.00	$81.00	90%	$81.00	90%
NEW JERSEY	Union	$81.65	$81.65	100%	$49.00	60%
NEW MEXICO	Dona Ana	$67.32	$55.88	83%	$55.88	83%
NEW MEXICO	Luna, Grant, Hildago	$67.32	$45.72	68%	$45.72	68%
NEW YORK	Orange	$109.00	$120.00	110%	$90.00	83%
NORTH CAROLINA	Mecklenburg	$119.75	$90.50	76%	$45.25	38%
NORTH CAROLINA	Alamance	$89.75	$70.25	78%	$35.00	39%
NORTH CAROLINA	Johnston	$77.00	$70.25	91%	$35.00	45%
OHIO	Hamilton	$121.00	$103.00	85%	$77.25	64%
TENNESSEE	Shelby	$62.00	$62.00	100%	$42.00	68%
TENNESSEE	Hardeman, Fayette, Lake, Lauderdale	$50.00	$50.00	100%	$34.00	68%
TENNESSEE	Marshall, Coffee, Bedford	$50.00	$50.00	100%	$34.00	68%
TEXAS	Harris	$72.55	$55.80	77%	$52.35	72%
VIRGINIA	Arlington	$130.00	$130.00	100%	$130.00	100%
WASHINGTON	King	$128.00	$128.00	100%	$100.00	78%